Google Consolidates its Dominance of Online Advertising
Brian Subirana
 e-business Center PwC&IESE
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Google is the king of search engine marketing. DoubleClick is the main hub for online advertising. According to declarations made by Microsoft to the Financial Times, the two companies together could control 80% of the Internet advertising market. The same article makes reference to another rival which estimates DoubleClick’s market share at 85% of the graphic advertising market and eMarketer estimates that Google will end the year controlling 75.6% of search engine marketing.

In any case, the acquisition of DoubleClick by Google represents a hard hit to its competitors, among which are Yahoo! and the cable operator Comcast, in addition to Microsoft— and consolidates the king of search engines as the star of online advertising as well. In this light, DoubleClick is well worth the 3.1 billion dollars cash that Google has paid for it.

However, what makes the combination of these two companies so powerful? It is partly due to the similar and complementary natures of each company’s model. DoubleClick sells advertising space on the main advertisers’ Internet pages, some of these as high profile as Ford. Their technology allows them to provide adds (banners, videos or other formats) on pages with content related to the add.

Thus, for example, an add for a Ford sports vehicle could appear on a page of the online edition of the NY times featuring news on a Formula1 event, assuming that a reader interested in Formula1 is also interested in the automotive market.

In similar fashion, Google provides advertising -up to now only textual- to third parties, based on the relevance that it might have for the audience. In the case of a search engine, it is a relationship of mutual advantage: Google only makes Money when a user clicks on the add, thus the more relevant the add is for that audience, the more users will click on it and the more money Google will make on that item.

Highlights

1 Most of Google’s revenues come from contextual ads, meaning advertising related to searches processed by its engine. With the purchase of DoubleClick, Google increases its presence in the online graphic advertising segment, including banners, which represent half of the total online marketing investment.

2 Google plays direct rival in this segment to heavyweights such as Viacom, Yahoo!, Microsoft and telecom operator AT&T. Some of these companies are expressing concern that with the purchase of DoubleClick, Google will take over 80% of the online advertising served to third parties.

3 eMarketer estimates that this year online advertising revenues in the United States will reach $19.5 billion. Of that, $6.3 billion will go to Google, which thereby surpasses Yahoo! ($3.6 billion), AOL ($1.7 billion) and MSN ($1.3 billion).

4 Google has agreements to auction ad spaces in the more than 675 Clear Channel Communications radio stations in the US as well as EchoStar’s 125 digital TV channels. Under these pacts, the advertisers can buy space to run their spot through Google’s auction system.
However, unlike Google, DoubleClick has never kept a unique repository containing all the information on the habits and behaviors of the audience. Some clients have their own server which stores information about users, and this data is not integrated with that of other companies, whereas a common database would have given a single vision of a given user, making it easier to get to know preferences and avoiding repeating adds. It would also provide more reliable statistics.

Google’s entry into DoubleClick can solve this shortcoming and also promises the possibility of combining this information with that of searches and even emails received and sent though Gmail. That is to say that the company would know what a given user reads on the NY Times website, what banners they see, what they search for on Google and what their Gmail messages contain. With all this information, segmentation –one of the main tools clamoured for in online advertising- becomes much simpler and more effective.

Nevertheless, although buying DoubleClick seems like a brilliant move on Google’s part, the king of search engines will be forced to sort out the mess of integrating two organizations and information systems, facing organizational, strategic, technical and legal challenges. The scale of this hurdle weighs heavily, perhaps almost as much as the advantages of this merger.