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"Israel is disproportionately important to Google"

Google vice president David Rosenblatt explains to "Globes" how the acquisition of DoubleClick positions his company to change the global online display advertising market.

Noa Parag 12 Mar 09 18:43

"We expressed opposition to a future deal between Microsoft and Yahoo! because we thought it simply wasn't good not for Yahoo! and not for Google," says Google vice president of global display advertising David Rosenblatt in an exclusive interview with "Globes". "We didn't manage to stop it, and now Yahoo! has to think by itself what's good for it."

Rosenblatt came to Israel

Rosenblatt came to Israel the other week, not for the first time. He took part in the Israel Internet Association's annual conference, where he spoke on "The road ahead: charting a new course for online advertising".

"From the research and development angle, Israel is disproportionately important to Google. Many good things that we do as a company, particularly products connected to the advertising industry, come from the Israeli development center. This is the reason why Israel is important to us." .

Does your entry into the display advertising market change the status quo between Google and its biggest rivals, Microsoft or Yahoo!?

"We aren't focused on our competition, and that's the main difference between Google and other companies. We don't have meetings to discuss what the others are doing and how we will do it differently, or what Microsoft is doing and how we can beat them. That's not Google's emphasis. Out goal is to focus on whether we can change the display advertising market. That is, can we make it bigger and more profitable for everyone who is in it? And the answer is yes."

Besides the personal connection (Rosenblatt's mother is Israeli and he comes to Israel fairly often for family events), Rosenblatt also invests in Israeli start-ups. One of them is Virtual Tweens, which is developing a virtual ecological world for children, but he is not prepared to discuss it, saying, "I see a lot of start-ups, but I don't discuss my investments."

Rosenblatt is one of the most highly respected people in the online advertising industry. Before his current role, he was the CEO of online advertising company DoubleClick, which was founded in 1995 and bought in 2008 by Google for the huge sum of $3.1 billion, double the price Google paid to acquire video sharing site YouTube. After the purchase, Google founder Sergey Brin said, "It has been our vision to make Internet advertising better - less intrusive, more effective, and more useful. Together with DoubleClick, Google will make the Internet more efficient for end users, advertisers, and publishers,"

The acquisition, which began in 2007 but received regulatory approval only a year later, is seen as a strategic acquisition for Google's display advertising activity. In the 1990s, DoubleClick was considered a real pioneer in the online advertising market, and the technology it developed allowed it to specialize in rich and focused advertising banners of various kinds and video clips.

Google has almost no hold in the display market, compared, for example, with Yahoo!. 62% of Yahoo!'s revenue in the US is from display ads, and according to eMarketer, Yahoo! holds about 33% of the $7.1 billion US display advertising market. It's clear that Yahoo! has a clear lead in the display market 99% of Google's revenue comes from search-based advertising.

However, keeping in mind that before Google, Yahoo! had a much more significant presence in the search industry, while today Google receives 73% of search-based advertising revenue, compared with Yahoo!'s 13%, its clear that the search giant has not yet said its last word on display advertising, and the integration with DoubleClick is expected to yield its benefits over the next few years.

Your decision to get into the display advertising market primarily threatens Yahoo!.Should Yahoo! be scared of Google in this field as well?

"What should concern the CEO of Yahoo! when he gets up in the morning is that people go to Yahoo!'s homepage when they open their personal computer, and not go somewhere else on the Internet, as Yahoo! is basically a content company. If it succeeds in doing that, then advertising revenue will double by itself. Google, on the other hand, has no content of its own, so it doesn't have that concern. Google's concern is how to get other people to profit from advertising in the display market."

It is estimated that 40% of the global online advertising market is display advertising, with the rest attributable to search-based advertising. Rosenblatt says the display market operates inefficiently. "Global revenues form display advertising are still very concentrated: about 50% of advertising expenditure in this market goes to just 3-4 content distributors, and this is despite the fact that they are responsible for only about 20% of page views. This is just one example of the immaturity of this market."

"One of the reasons for that," says Rosenblatt," is that the Internet audience is still scattered over millions of sites and online content producers, and it is still very hard to address and capture these audiences. It's very complicated and sensitive, and a great many companies are involved in it. From this point of view, the logic behind the acquisition of DoubleClick is clear: DoubleClick's technological platform, together with Google's leadership in media and monetization, will enable us to create a situation in which advertising expenditure in the display market will be distributed over the Internet in a logical way, meaning in accordance with the places that surfers visit, and that way we will succeed in changing the current concentrated situation."

Is Google's aim to do to the display market what it did to the search market, and in the next few years to create a reality in which it is the dominant player in this area too?

"Really not. We have three main aims: First, to offer a technological platform to agencies and content distributors that will enable them to manage their media more successfully. The second is to create a trading arena for display advertising, similar to what we created with our Adsense and Adwords system, that will enable other players to buy and sell on our platform. The third aim is to create our own content network, in which we will sell advertisements ourselves on behalf of the content distributors.

"This logic is also what explains why Google is so successful in the search market. Alongside our innovativeness and technology, Google has made the way advertisers buy ads on the Internet very simple. We educated the market in search, and the aim is to reproduce this innovation and technology in our display business. The acquisition of DoubleClick was clearly made in order to strengthen Google's position in the display market."

Perhaps the aim is to diversify Google's revenue sources, and ensure that it will not be so dependent on revenue from the advertising market?

Rosenblatt quickly puts on the Google expression, which scatters mantras about mission in all directions: "Google doesn't think like that. We focus on solving problems, and believe that if we solve big problems then that will also generate revenue and profits, but this is not our first aim. The proof is this: We are an advertising company that is very strong in media and technology. On the other hand, there's a problem in the display market. We believe that we are capable of solving it."

The recession is good for the Internet

To explain the advantage of combining the two companies, Google and DoubleClick, Rosenblatt resorts to similes from the world of air travel. "The content distributors look at their businesses the way airlines look at their businesses: there's tourist class and business class. By way of analogy to the Internet, business class is their stock of premium content, such as the homepage or branded places, while their tourist class is the cheaper stock. Accordingly, the content distributors sell their premium stock through their sales teams, whereas they offer the cheap stock, the seats in tourist class, for sale through a network of sellers.

"However, this is not the right way of managing their return efficiently, as airlines do not always manage to sell all their seats in business class, and they are stuck with this stock, as it can't be sold more cheaply. On the Internet that is possible DoubleClick's products help to sell the premium products, while Goggle's products enable the sale of the seats in tourist class.

"The combination of Google and DoubleClick," Rosenblatt says, "enables us to sell both our products, and we thus enable the whole world to compete for every seat on the flight. The seat goes to the customer who pays the highest price for it, and we succeed in making the maximum profit from each seat, that is, from every customer."

The logic that led to the acquisition of DoubleClick is not lost on Google's big competitors. After Microsoft lost in the auction for DoubleClick, when it bid only $2.1 billion and was outbid by Google, Microsoft bought an advertising company called aQuantive for the astronomical sum of $6 billion. Yahoo! has also not been idle, and has bought the remaining 80% of RightMedia for a much more modest sum: $650 million, while AOL bought Israeli online advertising company Quingo for $340 million.

With your hand on your heart, wouldn't you say these prices are over the top?

"We will only know that in the future. It's important to remember that the companies are not alike. DoubleClick is the leader in selling premium products to the advertising industry, whereas RightMedia has no products like these, and aQuantive isn't as big as us."

What is certain is that these acquisitions would not have been carried out in 2009, a year in which the global recession hovers over all sectors, and the advertising industry is expected to be especially hard hit.

Rosenblatt agrees that the current recession is not good for the advertising industry, but he says that "the Internet has been hurt less than radio, television, magazines and newspapers," adding. "It's clear that the Internet's situation is not as good as it was a year or two ago, but the customers we speak to, like all the leading players, predict that, although the Internet will not grow at the rates we have seen in the past, at worst he online advertising market simply won't grow, but it is certain that it will not weaken. As far as the market share the Internet has out of the general advertising cake is concerned, the current recession is actually good for the Internet."

Rosenblatt is careful to mention another ray of light. "Historically speaking, the years 2000-2002 were very bad for the industry, but they also spawned companies like Google or Advertising.com, companies with a critical influence on the industry, and that have proved that they are very successful companies for the long term."

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