

# 4 SCREENS; 1 INTERNET; NOT THERE YET.

*Smart entrepreneurs and investors will bet on the growing consumer demand for a more universal internet experience.*

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Electronic devices—mobile phones, PDAs, computers, TVs, iPods, and game consoles—are transforming traditional media companies' business models as well as the way advertisers interact with consumers. Rapid technological advances are connecting these devices through the Internet, creating the possibility of a device-agnostic integrated Internet experience.

The majority of today's Internet users use the Web through their computers. For others, especially outside the U.S., mobile phones have become a viable alternative. Connecting online via multiple devices means web sites and other online media must recognize users regardless of the devices they use. While new business opportunities will emerge for media companies, advertisers, technology developers, and entrepreneurs, existing models stand to be threatened.

## THE CURRENT ONLINE ECOSYSTEM

Within this online ecosystem, advertising networks (including Google AdSense) currently act as the principal monetization vehicles. Targeted ad networks that optimize campaigns based on behavioral, geographic, and contextual attributes have become highly coveted. The computer-based Internet experience is maturing, building an ecosystem of technology, content, advertising, and commerce.

Recently, several deals have built and expanded this initial framework. These deals have concentrated on online advertising networks and technologies, online media and content, and interactive marketing services. Two recent transactions—AOL's \$275 million acquisition of Tacoda and Yahoo's \$300 million acquisition of BlueLithium—illustrate the value of these next-generation networks.

The knowledge that's naturally derived from serving billions of ads gives ad servers a strategic advantage. Two of the largest and richest acquisitions in 2007 were driven by recognizing and capitalizing on this advantage: Google's \$3.1 billion acquisition of DoubleClick and Microsoft's \$6 billion acquisition of aQuantive. The same rationale undoubtedly drove one of the most unexpected deals: WPP's \$650 million acquisition of 24/7.

## THE FUTURE ONLINE ECOSYSTEM — AN AD NETWORK IN YOUR POCKET

Ad networks have expanded onto devices such as game consoles and mobile phones. Game consoles such as Xbox 360 have advanced dynamic ad serving platforms, driving in-game advertising deals, such as Microsoft's acquisition of Massive and Google's acquisition of Adscape Media. Mobile ad networks are quickly broadening their reach, spurring AOL to acquire Third Screen Media and Microsoft to acquire ScreenTonic. Strategic acquirers recognize the substantial opportunities these businesses

represent, and investment dollars are moving toward them.

Another high-growth area—interactive marketing services—has been consolidating for the last several years, with the pace accelerating in 2007. These companies create online presences for their clients and help them plan, buy, and optimize their online marketing. They provide a key financial link for online content creation and distribution. Advertising holding companies recognize the importance of offering cutting-edge interactive and digital services—and are willing to pay for them.

Publicis' \$1.3 billion acquisition of Digitas is one such example. Trying to solidify its position in the digital arena, WPP has made several interactive acquisitions and investments in the last year alone, including Refinery, Schematic, Blast Radius, and Spot Runner. Other significant deals include General Atlantic's acquisition of AKQA, Interpublic's acquisition of Reprise Media, and iCrossing's acquisition of Proximcom.

M&A activity in online media has been dominated by spectacular acquisitions of young companies with new business models that generate vast audiences, such as News Corp.'s acquisition of MySpace and Google's acquisition of YouTube. A middle market in online content is emerging as mid-size online media businesses are maturing and generating positive cash flow. Expect traditional media companies and established online media players to acquire premium online content businesses and effectively consolidate ownership over the next several years.

### THE GAME CHANGER: INTERNET-CONNECTED TV

The biggest electronic medium, television, still remains largely unconnected to the online world. But this is changing rapidly. Products such as Microsoft's Media Center and Apple's new iTV are some of the latest to try connecting TVs to the Internet. Once the online ecosystem extends to television, its role and function will be redefined by its new interactivity.

Currently, Microsoft's Xbox 360 users can wirelessly stream content—pictures, music, and videos—from their computers to TVs. In addition to accessing previously owned media purchased from Microsoft, an Internet-connected Xbox can access an online content marketplace that allows the download of full-length HD movies directly to Xboxes for viewing on a consumers' TVs. However, the Internet experience on the Xbox is limited. By not providing a web browser, Microsoft prevents users from accessing the "open" Internet, restricting them to its own walled-garden marketplace.

Today's Internet experience is primarily text-driven, with search being the most popular method used to access information. Some other variation, perhaps a form of graphical navigation, will become the de facto standard for Internet browsing on TV—and possibly other devices as well.

### A DEVICE AGNOSTIC INTERNET EXPERIENCE

As the Internet begins to connect disparate devices, users' experiences on each will differ. Restricted by hardware, software, and processing capabilities, each device has its own strengths—and limitations. But once users become aware of the potential for truly integrated Internet access, demand for a device-agnostic integrated Internet experience will follow. Virtual environments, such as Second Life, could evolve into the killer apps that bridge cross-device Internet experiences.

## RECENT DEALS

| BUYER                            | SELLER      | VALUE (\$MM) |
|----------------------------------|-------------|--------------|
| <b>Online Ad Network/Serving</b> |             |              |
| Google                           | DoubleClick | \$3,100      |
| Microsoft                        | aQuantive   | 6,000        |
| Yahoo                            | Right Media | 680          |
| WPP                              | 24/7        | 650          |
| Yahoo                            | BlueLithium | 300          |
| AOL                              | Tacoda      | 275          |
| Lagardere                        | Jumpstart   | 84           |
| Microsoft                        | AdECN       | n/a          |

|                                           |               |           |
|-------------------------------------------|---------------|-----------|
| <b>Mobile Ad Serving/Services/Content</b> |               |           |
| Microsoft                                 | Massive       | \$200-400 |
| Google                                    | Adscape Media | 23 est.   |

|                            |                    |       |
|----------------------------|--------------------|-------|
| <b>In-Game Advertising</b> |                    |       |
| AOL                        | Third Screen Media | n/a   |
| Microsoft                  | ScreenTonic        | n/a   |
| Verisign                   | m-Qube             | \$250 |
| Nokia                      | Enpocket           | n/a   |

SOURCE: ADMEDIA PARTNERS

But just being connected isn't enough. The integrated Internet experience is about taking different components—phone, e-mail, personal media, and so on—and putting them on any device the consumer chooses. As device users clamor for seamless connectivity, opportunities abound for media companies, interactive agencies, technology developers, and entrepreneurs. One such example, the iPhone, elegantly integrates the Internet, phone, e-mail, and personal media.

At first, opportunities will be driven by smaller, entrepreneurial companies experimenting on the fringes of the mainstream. For example, RIM (Research in Motion) started out as a small Canadian technology company until it revolutionized the way e-mail is transmitted and received on Blackberrys. But, with hundreds of companies creating hundreds of different technologies and architectures, chances are, they can't talk to each other.

Because of gaps in technology integration, these disparate environments and walled gardens keep content providers from creating, distributing, and aggregating their offerings to the widest audience possible. Consolidation reduces the number of different technologies and architectures to a manageable few, providing the basis for future growth. Consolidation, predominantly M&A, acts to create standardized operating environments, letting the strongest technologies survive and flourish.

Initially, M&A deals will continue the expansion of the online ecosystem to new devices. Look for deals that enhance and expand cross-platform ad networks as well as broaden measurement, analytical, and optimization capabilities. Media companies will acquire assets that let them produce and distribute multipurpose content. Marketing services will acquire specialists who understand how to use these new forms of media and technology effectively for advertisers.

As the current online ecosystem expands to incorporate a wide variety of devices, entrepreneurs and technology developers will create hardware and software that bridges the Internet user experience across devices. This device-agnostic integrated environment will include content aggregation and distribution networks as well as new forms of navigation and search.

Consumer demand and adoption will determine what new products and services will succeed. Existing media companies and interactive agencies trying to retain their customers and stay ahead of their peers must adapt, adopt, or consume their competition to stay ahead of this coming creative wave. You can bet that some of the most important successes will be among the most unexpected—and involve companies that don't even exist yet.

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