

Ad Blocking – An old problem with a new solution.

By Dylan Rosario

Forward:

Today advertising is critical to the internet industry. Search engines, ad networks, and publishers are scrambling to respond, even as the masses are beginning to rebel against their ever present selling of goods and services. Publishers and webmasters alike, look to advertising as a principal source of revenue. The proliferation of ad blocking technology presents a serious problem for a young and thriving industry.

This document is the first in a series of white papers that will debate the issues surrounding online ad blocking. This paper will introduce a historical view of the online ad industry, what it means to the web, and what it needs to be addressed now, rather than later.

In subsequent white papers we will discuss how several key players in the online advertising market continue to play both sides of the fence. These companies operate as both an ad-network and as an ad-blocking software provider. Hypocrisy at its best.

We will also investigate the various ad blocking technologies used today and, the argument against ad blocking and how it is used by the consumer. This predicament is further explained in our investigation of the arguments on behalf of the publisher. In the end the conversation will lead us to a vision of the future web. The unthinkable future where all web ads are blocked by the majority of consumer web browsers, and what this will mean to industry at large.

A look back through history:

Advertising has been a part of the Internet industry since the beginning. The term online advertising refers to ads that are served via the Internet. Early online ads ran on dial-up services such as Prodigy, eventually coming to the World Wide Web in the mid-'90s as banner ads or graphical pictures embedded onto sites such as the Global Network Navigator (GNN) and HotWired. Rick Boyce, the director of business development at HotWired (the online arm of Wired magazine) at the time, helped push through the first banner ad campaigns in 1994.

When advertising started to appear on the web, many people were upset that the Internet, which had been developed for military, governmental and educational purposes, would be commercialized. But what HotWired offered to advertisers was a way to track ad performance by "clickthrough rates," literally counting the times that people clicked on ads. The web has long been hailed as the most trackable medium, especially compared to broadcast TV and radio, because the computer user's trail of clicks can be tracked closely.

Over time, banner ads became less useful for advertisers as people tuned them out or sought software to block their delivery. This led to an arms race for people's attention, as advertisers introduced more and more intrusive ads, from blinking banners to pop-up ads to "interstitials" that take over the screen. Advertisers also have branched out into various delivery methods, sending ads via email, through RSS news feeds, to mobile devices, or embedded into online audio and video, including podcasts.

Corporations that have been accustomed to prescribing the media diet that

consumers should consume.

Consumers are demanding more control. From Napster to TiVo to pop-up blockers to blogs, individuals are turning the media model on its head, driven in large part by the same kind of technology tools that heralded the digital revolution in the first place. What the new media and marketing landscape will look like a few years from now is still unclear, but it is likely that the winners in both media and advertising will be those that adapt most effectively to the new consumer centric model.

Over the past few years, online advertising has become a juggernaut, leading all other ad mediums in growth worldwide. Why? As more people get broadband Internet connections, they tend to spend more of their time online and less time with print publications, TV and radio. As the attention of the public shifts to the Internet, advertisers must follow them in order to keep reaching people.

Here are some recent facts, figures and projections for online advertising in the U.S. and around the globe:

- The Internet Advertising Bureau (IAB) and PricewaterhouseCoopers (PwC) found that Internet ad spending in the U.S. hit a new record high in the first quarter of 2007, at \$4.9 billion, marking the 10th consecutive record quarter.
- In Europe, online ad spending nearly doubled in 2006 to 8 billion Euros, according to the IAB. Out of 13 countries covered, the UK brought in the most online ad money, with 39% of the total in Europe.
- In 2006, advertisers spent more money online in the UK (2 billion pounds) than in newspapers (1.9 billion pounds). In the second half of the year, Internet ad spending in Britain made up 12.4% of all ads sold, topping the global average of 5.8%.
- ZenithOptimedia predicted that worldwide online advertising revenues would outpace radio ad revenues by 2008.
- PwC predicts the U.S. online ad market will bring in \$35.4 billion in 2011.
- PwC predicts Canada will have the highest compounded annual growth rate for online advertising of any country in the world, growing 23.5% each year for the next five years.
- Jefferies & Co. predicted global online ad revenues would surpass \$60 billion by 2010.
- eMarketer found that Google, Yahoo, AOL and MSN took in 57.4% of all U.S. Internet ad money in 2006, a percentage it predicts will rise to 66.6% for 2007.

Despite these huge predictions and increased ad spending year for year, online advertising faces some serious risks and challenges the outcome is very much in doubt.

The so called "Consumer privacy" movement and "ad blocking" technology are the two greatest threats to online media and the web advertising industry. Consumers have the idea that they are entitled to surf the internet ad free. They are writing congress and are installing ad-blocking software.

This makes it more difficult for content creators and publishers to deliver quality programming to their viewers. Much like television, a good website with quality content requires writers, artists, and technicians to deliver what the viewer/visitor has become accustomed to consuming. Something that is taken for granted by an increasing majority of the web.

Ads are a small price we pay for watching good content on TV. Why should it be different online? Through ads the broadcast industry earns money from their creative works. Who's to say that a web master is not as equally entitled to the

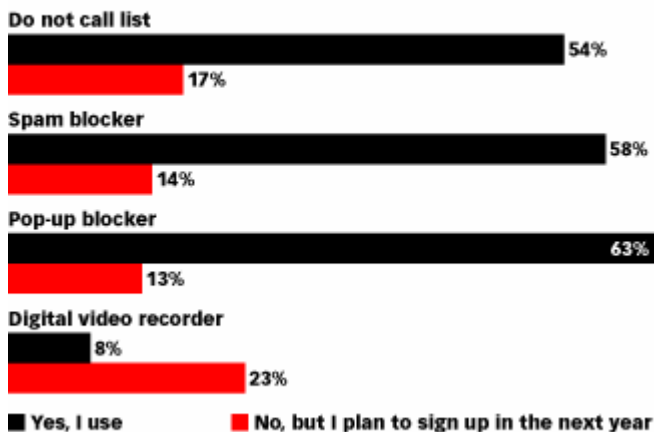
revenue generated by advertising as is the actor and producer of your favorite television show?

In the end, the biggest problem today surrounding ad-blocking and the limitations of publishers to do anything about it lies in the fundamental technology used to deliver ads. Publishers have the right to present advertisements as part of web usage, just as they are part of their TV usage. The two medias are no different from the creator's point of view, and consumers need to accept this as reality.

It wasn't too long ago that all these consumers who are now online, were watching television. Consuming great creative content and programming and side by side along with all the irrelevant and poorly targeted advertising that was pushed on the masses by the ad agency marketers. The fact that the web is nothing more than a new media distribution system does not change the fact that consumers must provide a fair trade for their otherwise free consumption. This comes in the form of watching ads. If they don't like ads, than they can watch only HBO or some other paid station. Consumers can avoid ads by not visiting websites that have them displayed. It's easy to pin-point the culprits.

Data from Forrester Research, published in late 2004, showed that, even then, a majority of North American Internet users deployed a range of ad-blocking services and devices. 63% of those surveyed then used a pop-up blocker, with an another 13% intending to deploy one during 2005.

Types of Ad Blocking Services Online Consumers in North America Have Signed Up for, 2004 (as a % of respondents)



Source: Forrester Research, September 2004

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The intentions of consumers are clear. A survey from Find/SVP, published in August 2005, implied that 62% of US DVR owners saw avoiding commercials as a benefit of the device.

The state of the ad-blocking technology

The technology used over the last several years to block ads has become increasingly effective. The big advertising networks are looking for better ways to convert all those eyeballs into paying customers. Marketers seek better and better targeting and meanwhile the consumer is becoming more adept at side stepping or all together ignoring the ads present on a web page.

Today, things are beginning to look very grim for marketers. Ad-Blocking is now a major factor in online campaign and publisher revenue forecasting. Now with the new cookie blocking technologies coming out it will be even more difficult to up-sell

advertisers on targeting appropriate ads to website visitors. Ad blocking is one thing, now the new browser software denies even the ability to deliver better ad relevancy.

Today, 100% of all web browsers have some form of ad blocking installed by default. Unless you are using a very old version (IE 6 or before) of Internet Explorer or some arcane Linux browser, you are blocking pop-ups by default. Interesting enough, these pop-up blockers don't always work. More and more people are seeing pop-under ads appear from sites such as CNN.com and many other major media websites. The practice has become a common reality. Pop-unders are hands down one of the most effective media formats online today. This is evident by how many people hate them. If they were not effective than people would not care about their presence. Annoying or not they get your attention, and attention is the first desire of the advertiser. The pop-unders are so effective that the browser companies have built pop-up blocking directly into the browser at a fundamental level. Despite their best efforts, pop-unders still get through.

Many companies have provided ad-blocking by deploying web browser extensions that black list advertising network domains. This ad-blocking has become a serious business for developers who integrate their plug-ins via a download executable. The software arrives in a small compressed program, which is then installed on the computer and creates a sort of black-list of domains to which the computer will not speak to. Much to the angst of Google, DoubleClick, Advertising.com, 24/7 media, Atlas, and hundreds more ad networks, once their name appears in these black lists it is almost impossible to defeat ad-blocking.

As the proliferation of the ad-blocking software increased a decline in advertising is sure to follow. The fact that people are downloading the software and using it is a reality that marketers must address. They have ignored the fact for far too long, and have dismissed the use of the software as a minor factor in online advertising. Yet in recent week leading up to the writing of this article we have observed the numbers of weekly downloads for Adblock Plus, the most popular firefox ad blocking plug in, increase by over 100k downloads a week. Up from 235,000 to over 358,000 install weekly. This means that over the course of 1 month 1.2 million fewer people will see the ads on the publisher's website. These are the same savvy individuals advertisers most wish to reach.

The fact is that the consumers to which marketers want to speak to are becoming more and more difficult to reach due to the ad-blocking technologies available today.

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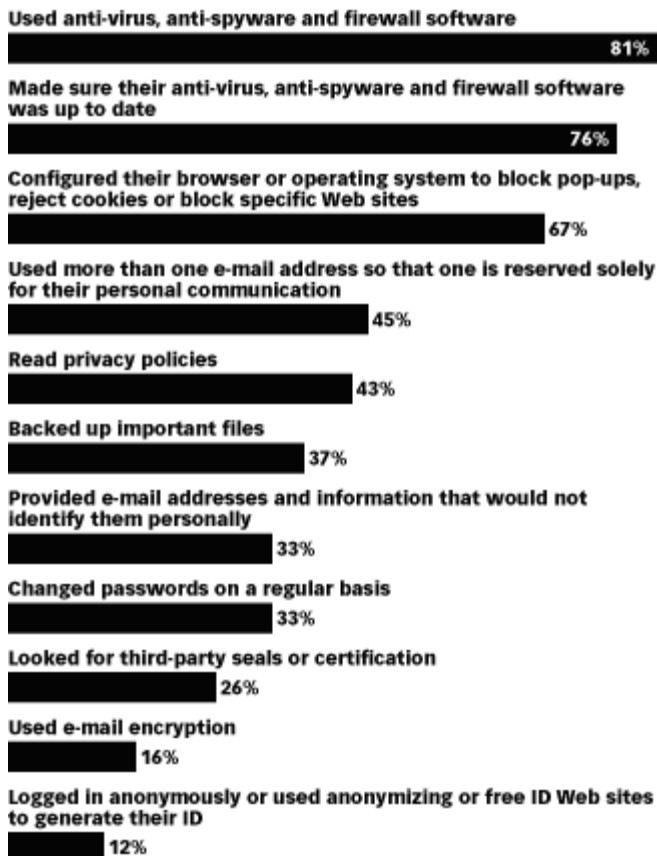


These numbers are staggering when you look at the entire landscape of ad-blocking solutions online. The 2006 study from Forrester Research showed that in 2005 nearly 50% of all internet users utilized ad-blocking, and nearly 80% of all broadband users utilized the technology. Today, we can assume that nearly 78% of all online users and 95% of broadband users have the technology installed.

The revenue impact

If by the reports from Forrester Research in 2006 are accurate and assuming that the eMarketer national internet usage figures have stayed level, we can calculate the approximate loss of revenue for the online advertising industry due to ad blocking.

Online Privacy Measures Used in the Past Six Months by US Adult Internet Users, September 2006 (% of respondents)



Note: n=1,025

Source: TRUSTe survey conducted by TNS as cited in press release, December 2006

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In 2006, the ad revenue accounted for \$15 billion and the internet usage was at approximately 181 million people. The studies by eMarketer report that ad blocking was at over 67% penetration in that year. To be conservative and we say this number is only 50%, for the year of 2006. This would mean that each non ad-blocked person (95 million) in the US viewed \$186 of ads on average. At an average of \$5 CPM [spell out CPM] this means that each these people viewed 37,000 ads for the year. With a \$3 CPC [spell out CPC] model 62 ads were clicked per user.

US Online Advertising Spending, by Format, 2004-2010 (millions)

	2004	2005	2006	2007	2008	2009	2010
Paid search	\$3,850	\$5,129	\$6,474	\$7,533	\$8,760	\$10,073	\$11,258
Rich media	\$963	\$1,251	\$1,794	\$2,418	\$3,176	\$4,208	\$5,273
Classified	\$1,733	\$2,252	\$2,730	\$3,255	\$3,833	\$4,463	\$4,988
Display ads	\$1,829	\$2,377	\$2,886	\$3,348	\$3,723	\$4,335	\$4,418
Sponsorships	\$770	\$626	\$624	\$744	\$986	\$1,148	\$1,425
Referrals	\$193	\$626	\$780	\$930	\$986	\$765	\$570
E-Mail	\$96	\$125	\$156	\$186	\$219	\$255	\$285
Slotting fees	\$193	\$125	\$156	\$186	\$219	\$255	\$285
Total	\$9,626	\$12,510	\$15,600	\$18,600	\$21,900	\$25,500	\$28,500

Note: eMarketer benchmarks its US online advertising spending projections against the Interactive Advertising Bureau (IAB) - PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2005
Source: eMarketer, March 2006

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Figuring that eMarketer and Forrester Research is correct in their studies, and 67% of the consumers uses ad-blocking, than publisher stats will show this figure reflect in their revenue. Actually, real figures in 2007 (from several top online publishers) report that 65% of all impressions are served to the web site visitor banner, pop-under, or ad free. This loss of ad delivery can be accounted by adding bots and spiders to the ad blocking agents who visit a website.

Now after looking at these numbers we can assume that the entire internet industry sees a similar kind of discrepancy. Thus if we are to be conservative and allow for only half of the total visitor who are not seeing ads from web site, we would have nearly 30% of all online traffic is blocking ads.

30% of online users are blocking traffic, which accounts for \$7.5 billion dollars in lost revenue! Not such an insignificant number now is it? The continued denial by marketers and publishers alike is synonymous with the attitude taken by the industry for the last several years. In fact this attitude is exactly what the ad blocker manufactures and consumer want the industry to believe.

Ad blocking is a fact of life, and is increasingly important as consumers are becoming savvier to online technology. It is only a matter of time before the technology is built directly into each browser from the start.

What to do about ad-blocking

The problem is not without an answer. XadBlock has developed a simple to use solution that provides 99.999% ad delivery for publishers who power their websites with the Premier AAB technology. This powerful new technology is the silver bullet needed to recapture the eyeballs of consumers who have made their way over to the ad-free web.

Bringing increased revenue and increasing ad impressions will likely increase value across the board for the online advertising industry as a whole.

To read more on this technology go to [HYPERLINK "http://www.XadBlock.com "](http://www.XadBlock.com)
<http://www.XadBlock.com/>

What's next

The next whitepaper will discuss how ad-blocking is theft of the publishers content.