Microsoft adds behavioral targeting

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NEW YORK - Microsoft Corp. has started linking users' search habits with other personal information as it prepares to show more personalized advertisements.

With the use of small data files known as cookies, Microsoft can link information users provide when they sign up for Hotmail e-mail and other services with data on what they view and search for on various Microsoft sites, such as those for maps, Web journals and finance.

Microsoft uses that information to build a profile for a certain class of users — women over 30 who read financial news, for example — and sell marketers the opportunity to reach that targeted group as they surf Microsoft properties.

The company joins Yahoo Inc. (Nasdaq: YHOO - news) and other major Internet sites in implementing personalized ads based on Web surfing habits, a practice known as behavioral targeting. Microsoft's spin on the tactic, which brings demographic information together with online behavior, may make targeting more accurate, said Emily Riley, advertising analyst for JupiterResearch.

Microsoft competes with Yahoo, Google Inc. and countless smaller sites for online advertising dollars. It launched a proprietary online ad system over the summer intended to help close the gap with Google and Yahoo, but saw just 5 percent growth in online advertising revenue in the quarter ended Sept. 30. Meanwhile, Google's focus on contextual ads, or keyword-driven text links that appear next to search results or Gmail messages, has been extremely lucrative.

Microsoft rolled out the behavioral targeting technology in early September, after testing it for about a year. The company said it plans to expand its use around the world, but did not disclose any dates.

Microsoft found that behavioral targeting increased by as much as 76 percent the likelihood a visitor would click on an ad, according to Adam Sohn, a director in the...
company's Online Services division.

Although critics worry about companies knowing too much about their customers, Microsoft and other proponents of behavioral targeting believe users ultimately benefit when they see only ads relevant to them.

"We think that if we can provide the better experience" — in advertising as well as content — "people will spend more time on our network," Sohn said.