Microsoft to Increase Ad Business

By VICTORIA SHANNON
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PARIS, Oct. 2 — Steve Ballmer, the chief executive of Microsoft, vowing that the company’s $6 billion plunge into the ad business two months ago was not just an experiment, said today that advertising would become 25 percent of the company’s business within a few years.

That, he said, would be about the same amount of time it would take for all media and marketing to go digital.

“Over time, all ad money will go through a digital ad platform,” Mr. Ballmer told a gathering of European ad agencies and clients. “All media goes digital, all advertising goes digital.”

Mr. Ballmer’s remarks came the same day that the British online advertising trade group, the Internet Advertising Bureau, reported that Internet marketing had grown 41.3 percent in the first half of 2007 and now accounts for 14.7 percent of the total British ad market.

The total British advertising market grew by 3.1 percent during the first half of the year, to £9.1 billion, or $18.2 billion. However, without Internet advertising, the country’s media expenditure would have fallen by 1.9 percent. “Once again the Internet has propped up the U.K. advertising economy and remains the fastest-growing advertising medium,” the group said.

Microsoft became a player in the ad business with its August purchase of aQuantive, whose technology places ever-changing Web site ads in front of Internet viewers based on specific conditions.

Now, Mr. Ballmer is trying to convince media specialists that Microsoft is serious about catching up with Google as the digital brand of choice for advertisers, which spend about $550 billion a year.

Mr. Ballmer declined to comment on recent media speculation that Microsoft was interested in buying a stake in Facebook, the social networking Web site, saying only that he was “very excited” to be Facebook’s digital advertising supplier.

But he did say that Microsoft was not in danger of losing its focus and turning into an entertainment company. “ ‘Brand Microsoft’ should be seen as a software competence company,” he said, adding that the company does have other brands with other roles, like the Xbox game console.

Microsoft has more to overcome in Europe than just being No. 2 in advertising, after having lost its appeal of the European Commission antitrust judgment against it last month.
A Forrester Research study released this week of online consumers and technology brands in Europe showed that Microsoft scored low in trust among regular users.

“I think a lot of the brand issues have something to do with some of the other matters that we have been confronting,” Mr. Ballmer said. “As we move down that path very constructively, that will have positive brand impact as well.”

Although the commercial side of the Internet has experimented with a wide variety of business models over the last decade, Mr. Ballmer said advertising was the clear choice for digital media. In recent days, two prominent news Web sites — The New York Times and The Financial Times — said they were scaling back attempts to charge subscription fees for some of their content.

“As much as people sometimes like to pick bones with advertising, people much prefer an ad-funded experience to one that they pay for,” he said. “Even the basic software that we’ve delivered for so many years — if it can be ad-funded in the way it gets delivered to consumers, it probably will be ad-funded.”

The higher value of digital media, and therefore advertising, is that in computerized form, their consumption can be examined in minute ways and the information then used by marketers to increase sales.

Google is buying its own digital advertising technology, DoubleClick, which leads the market in Europe as well as the United States, although Microsoft is challenging that purchase as anticompetitive.

Brian McAndrews, the founder of aQuantive and now Microsoft’s senior vice president for advertiser and publisher services, said his company would be rolling out its digital marketing services network in France, Spain, Germany and Italy over the next couple months to take on Google and DoubleClick.

“What we’re trying to do — provide the advertising platform for publishers and advertisers — it’s only going to get more complex, more expensive, more technology intensive,” Mr. McAndrews said. “There are only so many companies that can really afford to do that, and clearly one of them is Microsoft.”