

3 Internet Providers in Deal for Tailored Ads

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For years, Internet service providers have watched with envy as the likes of Google, Yahoo and Microsoft sliced up the online advertising pie. Selling Internet access has been a good business, but selling Web advertising has been an even more lucrative one.

Now, three Internet providers in Britain have teamed up to try to obtain a piece of online advertising for themselves. The three companies — BT, Carphone Warehouse and Virgin Media — announced a deal last week with a company called Phorm, whose technology tracks Web users and sends them ads related to their interests.

Phorm said it would set up a new online advertising platform called the Open Internet Exchange, which any Web site would be allowed to join. Proceeds from ads shown on these publishers' sites will be shared with BT, Carphone Warehouse and Virgin Media, which together represent more than two-thirds of Britain's Internet access market.

The three Internet providers have agreed to give Phorm access to customers' browsing records, letting it track a Web user's every move. That way, the Internet exchange can send an ad directly to a select audience anywhere on the Web, rather than hoping that the user lands on a site displaying the ad.

"Now, you can turn things around for the advertising industry, and say, 'You define the audience you want to reach,'" said Kent Ertugrul, chief executive of Phorm, which is based in London.

A marketer that wants to reach wealthy golfers, for instance, would not have to restrict itself to advertising on golf sites. Because the ad system would track golfers' Web habits, it could follow them to other sites and show them golf-related ads there, too.

To a certain extent, advertisers can already do such behavioral targeting, as it is known. But the method has been less precise than many advertisers would like, because existing Web ad networks create only broad profiles of Internet users, based on visits to selected sites and certain keyword searches.

At a time when many people are worried about privacy, the Internet service providers' agreement to share records of their customers' Web habits might set off new alarms.

Phorm said it would guarantee anonymity by tracking each user with an assigned number only, and by regularly clearing the data. Phorm said its privacy procedures had been examined and approved by the Ernst & Young accounting firm.

Customers of BT, Carphone Warehouse and Virgin Media can opt out of the new system when it is introduced next month. But they will be encouraged to stay by being given a higher level of protection against online fraud. Analysts at Investec Securities said the Open Internet Exchange could generate £85 million, or \$167 million, in annual revenue for BT alone by 2009.

Analysts said that in the short term, the Open Internet Exchange and similar services would allow Web publishers to charge higher rates for advertising, because ads on their sites would become more relevant. Over the longer term, however, they could undermine Web content owners by letting service providers wrest away control of ad sales.

Esther Dyson, a technology investor and analyst, questioned whether the quest for more effective behavioral targeting might lead the online advertising business astray.

Bombarding consumers with more and more ads, even "relevant" ones, risks sending them to social networking services and other places on the Internet where advertisers find it harder to reach them.

"For advertisers, breaking into these walled gardens is the challenge," Ms. Dyson said.

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