

Gap Widens in Online Advertising

Rivals Struggle to Catch Up to Google As Buyers Favor Search Ads Over Display

By JESSICA E. VASCELLARO *September 4, 2008*

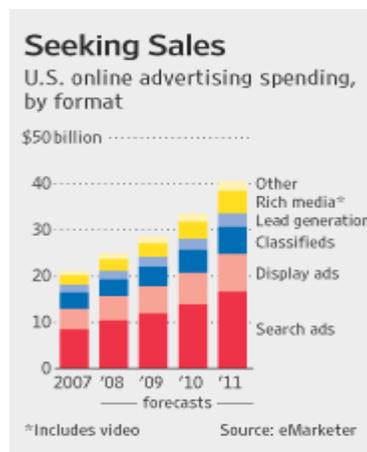
Spending on Internet advertising is climbing at a healthy clip -- rising 20% in the U.S. in the second quarter -- and growth forecasts are strong despite the weak economy.

The gap is widening (however) between spending on simple search ads, **Google** Inc.'s core turf, and spending on flashier display ads, which companies such as **Yahoo** Inc. and **Microsoft** Corp. had hoped to use to gain ground on Google.

Faced with a slowing economy, advertisers are sticking to what they view as the safest way to reach online customers directly: the plain text ads that appear on search-result pages. Search-ad spending is on track to reach \$10.4 billion this year, double what will be spent on display ads, according to research firm eMarketer.

That divergence of fortunes may be bad news for companies counting on a comeback for display ads, which ruled the Web in its early days. Though Yahoo and others say they have seen demand for these ads as they introduce technologies that better target the ads, they have been slow to regain favor.

The trend comes as Google rivals Yahoo, Microsoft and **Time Warner** Inc.'s AOL have invested billions of dollars in building and buying new display-ad technology to deliver more relevant and engaging ads to users on their sites and on the sites of other Web publishers.



Google, with more than 70% of the U.S. search-ad market, has much to gain from the trend. But the Mountain View, Calif., company also has made some big bets on the display business. Google is trying to tap brand advertisers to buy display ads on Google-owned properties such as YouTube and on other sites.

The gap between Google and its rivals could widen as search grows faster than display. Search ads are forecast to represent 42% of overall U.S. online ad spending in 2008, according to eMarketer, up from 40% in 2007. Display is expected to stay flat, at about 21% of overall spending.

Google's rivals caution that there is a wide mix of display-advertising types and that some are performing well in the current environment. Spending on display ads is forecast to reach \$5.2 billion this year, up from \$4.5 billion in 2007.

A Yahoo spokesman says investments in new display technologies helped the company meet its financial goals in its most recent quarter, despite the tough economic environment. And he notes that Yahoo's U.S. search business is growing briskly as well.