CASE STUDY 17

DoubleClick, Inc.

A strategic transformation

Ideally, we would like to become the Bloomberg terminal for online marketers and advertisers.

Kevin Ryan, CEO, DoubleClick, Inc.

It is a story that has become a mantra for DoubleClick's CEO, Kevin Ryan. Not only does it exemplify the success of his company, but it also illustrates the rise of the online advertising market:

> 'When Kevin O'Connor and I went out to raise money in 1996, we told venture capitalists: 'In 1995 the Internet advertising market generated $50 million in revenues.

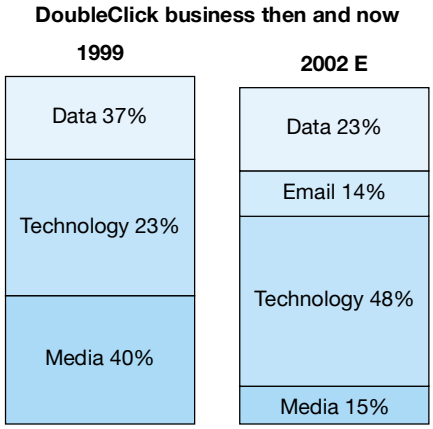
Table 1 **DoubleClick selected financials, 1996–2001**

	2001	*2000*	*1999*	*1998*	*1997*	*1996*
Revenue (US$ 1000s)						
Technology (external customers)	206 999 (195 911)	203 391 (179 543)	74 695 (66 834)	24 965 (6008)	9823 (673)	1939 (NA)
Media	129,336	253,827	125 499	74,180	29 924	6514
Data	81,329	72,355	65,961	46,979	30,971	17,532
Total revenue	417,664	529,573	266,155	138,724	67,926	25,985
Cost of revenue	177,397	246,570	107,156	69,191	29,741	3780
Gross profit	228,250	259,041	151,138	69,533	38,185	2,734
Operating expenses (US$ 1000s)						
Sales and marketing	182,782	227,229	103,578	52,525	24,855	3079
General and administrative	65,695	83,227	35,004	19,424	11,948	2145
Product development	53,447	44,789	28,364	12,194	5108	618
Total	511,669	448,158	209,853	84,503	42,013	5842
Net income (loss)	(265,828)	(155,981)	(55,821)	(18,039)	(7741)	(3954)
Basic and diluted net loss per share	(2.02)	(1.29)	(0.51)	(0.21)	(0.16)	(0.07)

Source: DoubleClick 10K SEC filings 1998, 1999 and 2001; company information.

This case was written by Patricia Reese, Research Associate, under the supervision of Soumitra Dutta, the Roland Berger Chaired Professor of e-Business and Information Technology, and Theodoros Evgeniou, Assistant Professor of Information Systems, all at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Exhibit 17.1 Business breakdown



Source: DoubleClick corporate presentation 3Q02, p. 24.

> We think you should invest in our company because in the year 2001 it will be $3 billion.' Yet we were thrown out of so many offices … The incredible thing is that if you could have looked into the future at that point, you would have seen that not only was the market going to surpass $3 billion and hit $5 billion, but there would be people [distressed by the dot.com bust and its adverse effect on online advertising] who are sitting around moaning, 'It's so terrible, it's really horrible. You must be so depressed … It's really not working, is it?' People have such short-term memories; they can only think in comparison to last year.[1]

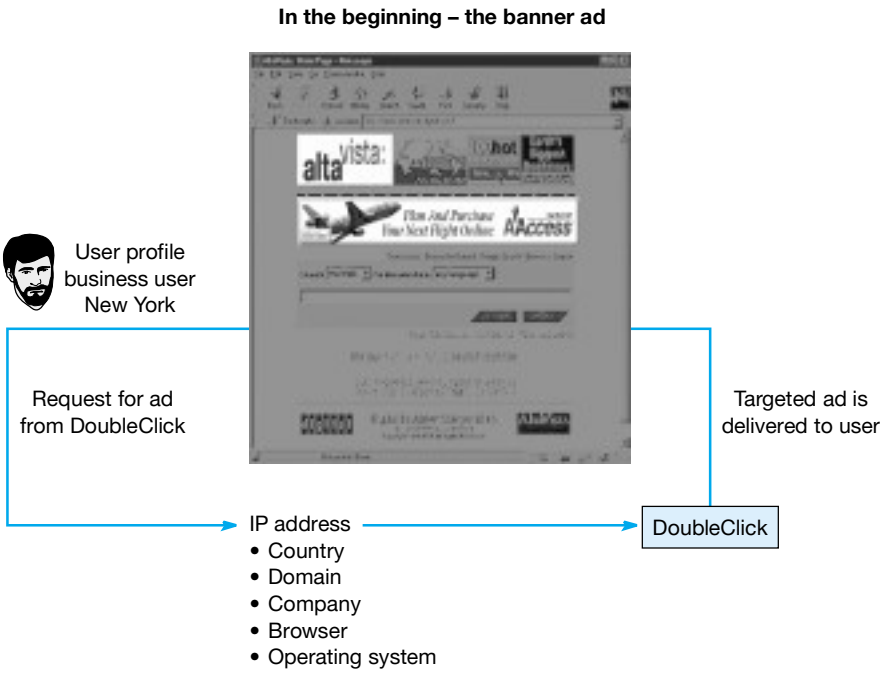
As one of the companies present from almost the beginning of the commercial Internet, DoubleClick can legitimately stake a claim to being called one of the 'founding fathers' of Internet advertising. DoubleClick can also lay claim to the title of infomediary, a type of business that flourishes in the world of bytes and bandwidth.[2] (Appendix 1 and Table 1 provide selected statistics and financial data for DoubleClick.)

In outlining the rise and transformation of DoubleClick (see Exhibit 1 and Apendix 2), this case

1 Kevin Ryan, interview, New York, 29 January 2002.

2 For the purposes of this case, we define an infomediary as a company using state-of-the-art technology to collect and/or manage aggregate information across a network of companies and/or websites. Such companies derive their revenues from the sale of their proprietary analysis of collected information.

Exhibit 17.2 How DART delivers online ads



Source: DoubleClick corporate presentation 4Q01.

recounts the company's first breakthrough with its product DART[3] and the DoubleClick Advertising Network, its subsequent delve into application service providers (ASPs), and its acquisition of the offline infomediary Abacus. The case seeks to generate discussion around the following questions: what strategies has DoubleClick used in its development and growth as an infomediary? Why and how did DoubleClick shift from being a pure media player to becoming a technology company? Where should it look for new growth opportunities?

DoubleClick: the beginning

DoubleClick was the brainchild of Kevin O'Connor and Dwight Merriman, respectively the company's current Chair and Chief Technology Officer. The two, convinced of the Internet's potential, spent six months in O'Connor's basement formulating as many as 100 ideas on how to capitalize on the Internet.

They came to the conclusion that advertising would be a crucial element to making money on the Internet. The Internet Advertising Network (IAN)[4] was born, powered by a cutting-edge ad-serving product, DART (Exhibit 2).

At the time IAN was conceived, very few websites were household names, much less making money, and the Internet was still the domain of 'tech heads'. But the WWW was on the cusp of mainstream acceptability: search engines like AltaVista were multiplying, the Netscape browser was on millions of desktops,[5] and a little web directory called David and Jerry's Guide to the World Wide We' – rebaptized Yahoo! in 1995 – would quickly push the Internet into households around the world.

Advertising: pre- and post-Internet

Before Internet advertising came of age, companies that wanted to advertise would typically hire an ad agency to run their ad campaign. Broadly, the agency would produce the creatives[6] for the campaign, make suggestions on what types of media to use (TV, radio, print, billboards, direct marketing, etc.), and where to buy (local markets, national, international). The client (advertiser) would preview and approve the campaign, and then the advertising agency would produce it.

Translating this process into dollars meant that an advertising campaign that cost $1 million in media buys could, for example, generate $200 000 in creative fees for the agencies. On top of that, the ad agency would charge a percentage of the media buy, traditionally around 10%, bringing the total cost for the advertiser to $1.3 million, of which the agency would receive $300 000. Internet advertising, however, threatened this cash cow, as Christopher Saridakis, Senior Vice-President for Global Sales and Client Services,[7] explained:

> You can get a lot for $1 million online. Creating that banner, music space or streaming media doesn't cost $200 000 … In fact, you don't even need a story board any more. It's only going to take some programmers a day or two to put together a bunch of banners for $1000.[8]

More importantly, Internet advertising could offer more than just cost savings; it could also offer accountability. Before software like DoubleClick's DART, online advertising was a leap into the dark: advertisers had no way of knowing which advertisement was seen by whom, how often, and, most importantly, whether the viewers were even in their target audience. Advertisers would buy space on websites, drawing assumptions based on traffic, unique visitors, number of hits, etc. Then along came DART and its innovative use of cookies[9] to deliver audiences to advertisers. Before DART, banner ads were blind, put up and changed at will – exactly like offline advertising.

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3 Dynamic Advertising Reporting and Targeting.

4 The company was renamed DoubleClick in 1996, following the merger of IAN with 'DoubleClick', the Internet sales group of ad agency Poppe Tyson (now Modem Media).

5 In the summer of 1995, Netscape's market share was estimated to be 80%. By 2002, it had fallen to less than 5%. www.hmetzger.de/netscape/netscape_history.html, 24 August 2002; and Matthew Broersma, 'Tech doesn't buoy Netscape browser', CNET News.com, 28 August 2002, http://news.com.com/2100-1023-955734.html, 3 September 2002.

6 An advertising term that describes the mock-ups or creative work produced by the ad agency. They enable the client to preview and select the advertising campaign.

7 Saridakis was Senior Vice-President for Global Techsolutions at the time of his interview.

8 Christopher Saridakis, interview, 30 January 2002, New York.

9 DoubleClick's cookies are small amounts of data that are stored on a user's computer on a temporary or more permanent basis. DART generates a cookie unique to each IP address – and even to a particular campaign – that tracks the surfers in the DoubleClick Network of sites. When a surfer visits a site in the DoubleClick Network, the cookie is used to exchange information between the visitor and the DoubleClick server, including data on surfing habits, preferences and how often a particular ad has been viewed by this visitor across the network – all in about 15 milliseconds.

In using DART, online advertisers could pinpoint – with a precision greater than that of traditional media – which visitors to their sites or to the DoubleClick Network were viewing which ads and their responses to those ads. It was the online equivalent of what the Nielsen Ratings did for network television in the USA, starting in the 1950s.

Saridakis recalled advertisers rushed to adopt DART because it permitted them to manage their ads by audience segment, geographic distribution – practically just about anything an advertiser wanted. 'The better you could target, the more you could charge – classic supply and demand,' he said. 'People knew that our technology was the only one that could do it.'[10]

For websites, DART meant that they could at last charge for their advertising inventory just as offline companies had done, by CPM or cost per thousand.[11] Even better, DoubleClick's technology would also eventually permit network members or technology customers to price ad space by the number of actions generated (cost per click, cost per lead, cost per sale and cost per download) rather than using the less precise cost-by-impression metric. Its unique technology, which could 'target an audience and deliver volume to advertisers,' gave the DoubleClick Network a clear advantage over its competitors.[12] DART permitted network members – especially smaller websites that did not have the pull of a large website – and technology customers to move their unsold advertising inventory quickly.

For the ad agencies, on the other hand, DART was a rose with some substantial thorns. While the technology undoubtedly helped the agency to serve its online ads, it also placed a larger burden on the agencies' shoulders: DART can determine almost immediately whether a campaign is working because the results are measurable in real time. An online campaign can be changed in a matter of minutes if DART metrics show that the ad is missing its target audience. Is the bright orange background too powerful? Change it to a soothing blue. Think the message is too direct? Tone it down. Want to add in free shipping for orders over $75? Done. Compare that to a billboard, magazine ad or television spot, which are virtually unchangeable once they are running, and it becomes crystal clear what one of online advertising's biggest benefits for advertisers is. This advantage explains why many advertisers seem to love it. It also means ad agencies shoulder more responsibility for results when running online campaigns.

But even with these advantages, traditional blue-chip companies were – and some still are – sceptical about the effectiveness and impact of online advertising.[13] They were also appalled by the astronomical rates some sites were charging and needed little incentive to steer clear of the medium. Since the decline of Internet hype, though, traditional companies are appearing online, attracted by the large inventories and the subsequent rate drop (Exhibit 3).

The case of Doritos, a brand of tortilla chips owned by Frito-Lay (a division of PepsiCo), illustrates why some traditional advertisers are moving online. In January 2001, Doritos bought air time for one 30-second Super Bowl[14] television spot for around $70,000 per second. In 2002, the company completely pulled out of the Super Bowl, and tripled its online budget. Why? They realized that their target audience was 12–24-year-olds who preferred surfing online to watching the Super Bowl.

Not only were they not reaching them through the Super Bowl, noted Susan Sachatello, DoubleClick's chief marketing officer, but with the cost of one 30-second Super Bowl spot running to $2.1 million, Doritos could spend the same amount and reach them all year long online. She continued

> This has been a phenomenal move for the community because Frito-Lay will never sell a single Doritos chip online, but they have found that the brand impact and the ability to reach their consumer are much more effective online than off.[15]

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10 Saridakis, interview.

11 CPM is a variable rate charged every time 1,000 users view an ad. Rates in 2002 ran anywhere from a tenth of a penny to nearly $100. M comes from the Roman numeral for 1,000.

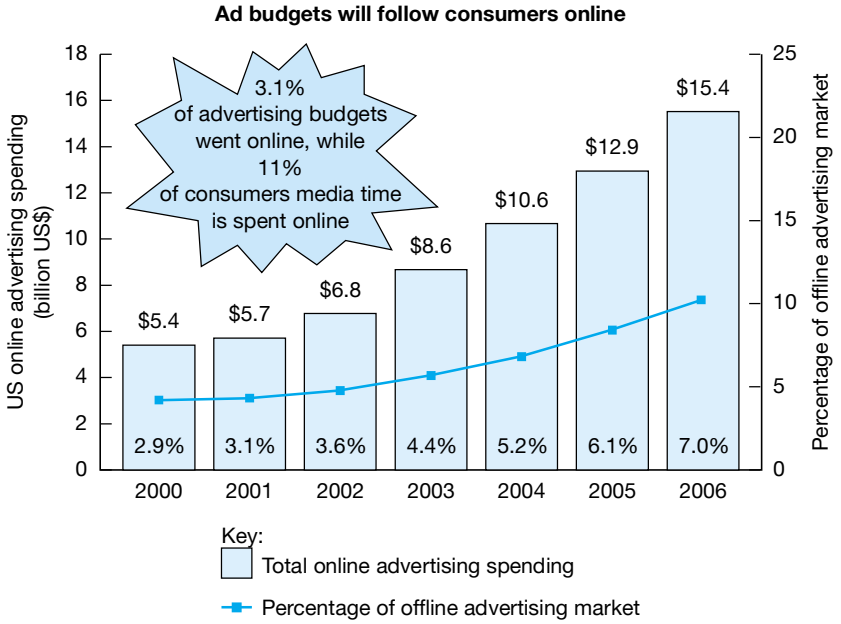
12 Judith Messina, *Crain's New York Business*, 16 June 1997, 13, 24, p. 1. Quote from Mario Dell'Aera, a partner at KPMG Peat Marwick, DoubleClick's auditor at that time.

13 One of the reasons why DoubleClick has invested so heavily in research is to prove the effectiveness of online advertising and marketing to such sceptics.

14 The Super Bowl is the American football championship that takes place each year. It is one of the top-viewed US events, and subsequently commands some of US television's highest advertising rates.

15 Susan Sachatello, interview, 30 January 2002, New York.

Exhibit 17.3 Potential for growth of online advertising



Source: DoubleClick corporate presentation 4Q01.

The network effect

A key reason for DoubleClick's quick success was its very early creation of an online network, which emulated an offline media network. It is the same principle behind US television networks, where a small hometown station is more interesting to bigger, national advertisers as an affiliate of one of the 'big three' US networks, for example, rather than as a stand-alone local station.[16]

Likewise, DoubleClick created its network to sell advertising via a collection of websites. As Kevin Ryan explained, many sites do not have the mass appeal of Yahoo! or AOL and are too small to pull down lucrative advertising contracts on their own. The DoubleClick Network offered to sell such ad inventory to an advertiser as part of a package of other websites. He pointed out that:

> The big media buyers are never going to talk to a small site, but as part of the DoubleClick Network, not only will the technology make a small site more valuable, but our dedicated online sales teams will sell the inventory on these sites. We take 40% of any revenues that we generate to cover our technology and sales costs, and give your site a check for the remaining 60%.[17]

The network effect compounded: by October 1998, two years after it was founded, the company represented 120 websites such as Travelocity, United Media, Edgar-Online, US News, AltaVista, and Fast Company – from 35 in April 1996. Company revenues rose as well, shooting from $6.5 million in 1996 past $138 million in 1998. And this was only the beginning of the company's interest in networks that could add to its core businesses and bottom line.

Riding the offline network: acquiring Abacus

Though DoubleClick had locked down the online advertising market with DART and the DoubleClick Network, the company had bigger ambitions: 'We want to be in anything that has to do with measurable media,' Ryan said. 'We took a look at the area and asked, "What data out there are important in the long term? What about the direct marketers who are

16 ABC (American Broadcasting Co.), CBS (Columbia Broadcasting System), NBC (National Broadcasting Corp.).
17 Ryan, interview.

offline?""[18] Such thinking ahead led them to their 1999 acquisition of the world's largest database of buyer transactions, Abacus.

Abacus is a gold mine for DoubleClick – or a data mine, to be exact – and unique in the business world. The Abacus Alliance is a data cooperative that collects and shares data among some 1,800 catalog companies and publishers (see Appendix 3). From the data that are shared, cooperative members have access to 90 million US households and close to three billion sales transactions. It bills itself as the 'the nation's largest proprietary database of consumer, retail, business-to-business, publishing and online transactions used for target marketing purposes.'[19] Exclaimed Ryan:

> The fundamentals of this company are colossal. It's one of the best businesses I've ever seen! Once you know what everyone has purchased, there's nothing more predictive. If I know that you have bought gardening supplies and have three kids, then obviously I should send you children's clothing and gardening-supply catalogs.[20]

Though the company posted $70 million in 2001 revenue with a 30% profit margin, it was not evident in the beginning that it would become so successful. After all, Abacus was asking its members to share their bread-and-butter customer lists with the other members of the cooperative. Ryan sympathized with their distress:

> It's extremely hard for them to do this because they're thinking, 'This is my customer list!' But we have 1,800 companies that have given us their data because then Abacus allows its members to buy names from it at half of normal market rates. So why do it? If those names perform for me and they are cheap, then it's great business for them. They just have to give us their data. Plus, if everyone gives their data to Abacus, no one can challenge that business.[21]

Though information between direct competitors is not shared, Abacus can create models of those households actively buying via catalog and turn up those households. For example, a children's clothing catalogue might ask for the addresses of households that have bought highchairs or playpens in the last six months.

The acquisition of Abacus presented a new opportunity for the online advertiser. Noted one journalist:

> Mr. O'Connor [then DoubleClick's CEO] realised that, by marrying the two, he could identify individual web users and not only track, but also predict their behaviour – making online advertising even more science than art. And he would have data that advertisers would pay through the nose for.[22]

However, soon there were allegations about privacy violations and data mishandling. The Federal Trade Commission launched an investigation, and privacy groups filed several lawsuits.[23] DoubleClick quickly responded: 'We commit [today], that until there is agreement between government and industry on privacy standards, we will not link personally identifiable information to anonymous user activity[24] across websites,' O'Connor stated in March 2000.[25]

The company made an effort to reassure the public and investors by appointing a chief privacy officer, and adopting one of the most comprehensive privacy policies on the Internet. The policy explains how DoubleClick collects information, what kind of information is collected and what the information is used for.[26] Under the current privacy policy, surfers must 'opt-in' to have their personal information included in a DoubleClick database. The company also participates in the self-regulating Network Advertising Initiative, audited by PriceWaterhouseCoopers.

DART: selling the secret weapon

> It's a classic business school lesson: if you don't do it, someone else will. I'm not going to walk away from a great market.
>
> Kevin Ryan

Looking back at DART's stellar early success, it could be attributed to two key factors: first, the early adherence of website 'heavyweights' in DoubleClick's stable of network websites – such as AltaVista,

18 Ibid.
19 www.abacus-direct.com/, 29 July 2002.
20 Ryan, interview.
21 Ibid.
22 'The Internet's chastened child', the *Economist*, 11 November 2000, p. 80.
23 The FTC investigation was concluded in March 2002 without any charges being filed. All private lawsuits have also been either dismissed or settled.
24 The company can, however, merge the two as long as the users remain anonymous.
25 Kevin O'Connor, 'Statement from Kevin O'Connor, CEO of DoubleClick', company press release, 2 March 2000. www.doubleclick.com/us/corporate/presskit/pressreleases.asp?asp_object_1=&press%5frelease%5Fid=2395, 29 July 2002.
26 www.doubleclick.com/us/corporate/privacy/privacy/default.asp, 29 July 2002.

Netscape, and Travelocity – created a snowball effect that attracted more and more websites to the network. At its peak in 2000, the network represented some 2,000 websites. It was a classic case of network dynamics reinforced by a unique technology.

Second, for DoubleClick's media representatives, DART constituted a key competitive advantage. As Saridakis stated, DART was the only system that allowed advertisers to target eyeballs (surfers) using criteria such as frequency capping,[27] geographic location, domain names and even browser types. Handing over the technology to other aspiring network creators was viewed internally as a life-or-death matter. And this was exactly what would go on the table.

In 1997, the company was negotiating with the Wall Street Journal Online to bring it into its media network. While DoubleClick felt its arguments were solid – a tried-and-true online sales force, its network reach, and a brilliant technology – the WSJ was convinced that their media sales team had already long-standing relationships with advertisers, and it did not need to outsource its online ad sales. Their counteroffer: to buy DART, and only DART, as an ASP solution.

The WSJ proposition set off a volcanic in-house debate. The media sales team was passionately opposed to selling the technology. For them, selling DART technology to others was unthinkable. They argued that it would mean that DoubleClick would have to approach engineers and chief technology officers – clients substantially different from the creative and marketing directors that DoubleClick was used to seeing.

But the company realized that if it did not sell its ad-serving software, others might sell theirs. At that point, they had a lock on the market with 'a lot of guys in the middle,' as Saridakis pointed out, but no one had a technology that could compete with DART in segmenting audiences and targeting information. Yet a patent dispute or competitor's technology development could change that. So DoubleClick seized the moment and began commercialising the system separately.

The financial arguments helped make the decision less painful: the margins on selling DART as an ASP solution were far higher than the return on media sales; furthermore, DoubleClick would not have to hand over 60% of what it charged to those websites it represented in its network. The green light was given in August 1997, and the WSJ Online became DoubleClick's first technology customer. DART for Publishers or DFP was born – and a new company vision with it.

A shifting model: from media to technology

By January 2002, the company had made a strategic shift from operating essentially as an online advertising sales network to becoming an online technology solutions company, centered around five product poles: Media, TechSolutions, Direct Marketing (Abacus), Email Marketing and Research (Diameter) (see Exhibit 4 and Table 2).

In the beginning media sales were hot, parallelling a rise in online advertising. They initially accounted for 100% of the company's revenues. However, the first sale of its DART technology to the Wall Street Journal Online started moving DoubleClick in another direction that has exploded to account for 70% of the company's revenue in 2001.

The company has continued its industry dominance by spinning off successful product adaptations of DART, such as DART for Advertisers (DFA) and DART Enterprise. DoubleClick takes its cue for development from the market, as had happened with DFA. As Ryan noted:

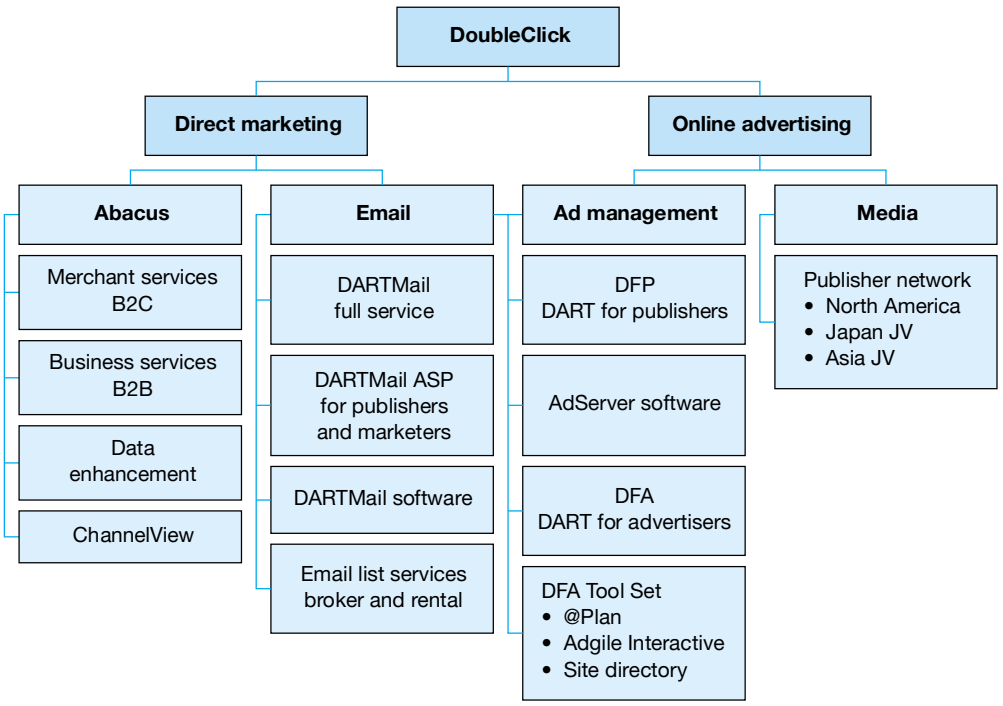
> Advertisers and agencies were coming to us, saying, 'Look, here's our challenge: when we buy ads on the WSJ Online, we get a DART report. We love that but we advertise on 20 different sites, so it's a nightmare for us. I get this report, that report and that report.' Some reports are DoubleClick, some are not. The accounting methodology is different. It's the equivalent in financial terms of multiple stock reports for a portfolio. The boss asks, 'How did your portfolio do?' and you say, 'I don't know.'

Additionally, DART permitted online advertisers to streamline operational issues such as campaign management:

> An advertiser, Ford for example, says, 'This ad campaign is not working well and we want to change it. We're displaying the blue car; let's go with the red car instead.' What they had to do was call up and ask the ad agency to change the ad. With DFA, they can change the ads as much as they want – every day, every three days, every week.

27 Limiting the number of times an ad is viewed by a particular surfer.

Exhibit 17.4 DoubleClick's products and services.



Source: DoubleClick corporate presentation 4Q01.

Table 2 DoubleClick's products and services*

(a) Online advertising

Product	*Description*	*Statistics*	*Comments*
DART® for Advertisers (DFA)	A hosted web-based ad management and serving application that enables advertisers to target users for ad viewing. Also allows advertisers and their agencies to streamline the ad management process through analytical reporting and manage their online campaigns.	Served 682 billion ads in 2001 400 clients in 2002. Used by all of the top 10 advertising agencies.	The product that launched DoubleClick. Uses cookies for geographic targeting and frequency capping (limits the number of times a person sees the same ad). Patented technology (September 1999).
DART® for Web Publishers (DFP)	A hosted web-based ad management and serving application geared to publishers, allowing them to traffic, target, serve and report on ad campaigns for their advertisers. Provides integrated ad delivery and inventory management. Offers an API (application programming interface) to integrate legacy systems.	817 clients in 2002.	Integrated rich media in 2001. Commercialised in January 1997.
DART® Enterprise	In-house licensed software that permits web publishers and merchants to target, serve and report ads online. Can also be used for other digital channels such as kiosks and iTV. Can be integrated with back-office systems.	407 customers in 2002.	Rebranded in March 2002. Formerly known as AdServer.

Table 2 Cont.

(a) Online advertising

Product	*Description*	*Statistics*	*Comments*
Site Directory	A web-based searchable database for ad buyers. Contains media planning information (audience, advertising specs, etc.) for thousands of websites. Provides web publishers exposure to top media buyers and planners.	NA	The online 'yellow pages' for media buyers.
MediaVisor™	This web-based media planning tool is designed to streamline the planning, buying and trafficking process for agencies and advertisers. Can be used with DART and Site Directory or integrated into in-house systems.	NA	Started development in February 2002.
mDART	Version of DART for wireless ad serving on mobile telephones.	NA	

(b) Email marketing

Product	*Description*	*Statistics*	*Comments*
DARTmail® Service (self and full)	A web-based application and licensed software using DART allowing publishers and direct marketers to plan, execute and track their email campaigns (self-service). A fully out-sourced, turnkey version also exists.	300 clients in 2002. Served 2 billion emails in Q1 2002.	Incorporates January 2002 MessageMedia and April 2001 FloNetwork acquisitions.
UnityMail™	In-house licensed software for email deployment and tracking.	NA	

(c) Marketing analytics

Product	*Description*	*Statistics*	*Comments*
ChannelView™	A web-based application that allows marketers to see the results of their direct mail campaigns across multiple order channels, including websites, catalogue call centres and retail stores.	NA	Introduced in January 2002.
SiteAdvance™	A hosted website software for online merchants. Allows online merchants to analyze the interactions between site traffic and transactions. Combines website metrics with multi-channel marketing data.	NA	

(d) Database marketing

Product	*Description*	*Statistics*	*Comments*
Abacus Alliance	Offers direct marketers transactional data, prospect lists, list optimization, advanced statistical modeling (housefile modelling) across different channels (direct mail, email, Internet advertising) on information collected from members.	1,800 members. 2.9 billion transactions. 90 million US households covered.	Bought Abacus in 1999 for $1.7 billion (founded in 1990). Bought remaining stake in Abacus Direct Europe in 2002.
B2B Alliance	Cooperative database focusing on directly marketed business-to-business products and services.	850 million business transactions. 250 participants.	

Table 2 Cont.

(e) Media			
Product	*Description*	*Statistics*	*Comments*
DoubleClick Network	Allows advertisers access to a collection of branded sites. Uses DART and DARTmail. Promises to build brands and generate leads for direct marketers, publishers and advertisers. Operates Gravity Direct website, allowing surfers to opt in for direct marketing offers	Reached 53% of US users in December 2001 according to Jupiter Media Metrix.	Sold 85% of European business to ADLink in January 2002. Sold US media business to rival L90 (now MaxWorldwide) in July 2002.
DoubleClick Sweepstakes	Provides tools for building and tracking customized online sweepstakes, rewarded registration form or rewarded survey in minutes.	NA	

*Statistics for 2002, unless indicated otherwise.

The DART product line has also been successfully replicated and exported throughout the world, establishing an international standard that accounts for a large part of its success, with some 1,600 clients currently using a DART product. In addition to its successful extension into new product areas, the company continues to dominate because it also upgrades and adds new features to its existing products, as with its latest release, DART 5. The company made the system more open, allowing client companies to integrate it into their billing systems.

The deflating Internet bubble accelerated DoubleClick's move away from media sales into technology. Falling advertising sales in 2001 forced the company to cut its staff by 25%, cutting the total headcount from 1,929 to 1,450. While the company took the critical decision to start selling its technology as an ASP solution, what will it do in light of the fact that the dot.com bust has also deflated revenues for DART, down 51% between August 2000 and 2001?[28] On the bright side, it seems that blue-chip advertisers are now getting more interested in web advertising. They accounted for 66% of DART's revenue between August 2000 and 2001.[29]

Yet despite such bright spots, the company has essentially divested itself of its media network. In January 2002, DoubleClick sold its European media sales network to Germany's AdLINK for _35.5 million, 36% equity and a 10-year deal with AdLINK to use DART technology. The company wants to continue working with media, but without the associated costs. 'We want to focus on our core competencies in technology and data,' Saridakis said. 'If we look at the spin-off to AdLINK in Germany, it's rather seamless. They have always been a client of our technology – we just have a closer relationship with them.'[30]

On the heels of this sale, DoubleClick followed up by selling its US media operations to a struggling competitor L90 in July 2002 for $5 million in cash and 4.8 million shares. DoubleClick will hold a seat on the board – and get a share of profits – in the new company, MaxWorldwide.

Where to now?

> The question is: what are the next big areas we are going to go after?
>
> Kevin Ryan

For DoubleClick's CEO, growing the business means improving processes and developing products for markets in which DoubleClick either has a first-mover advantage or those sectors in which existing competitors (Table 3) have a year or less head start. It also means shedding core businesses, if deemed necessary.

Ryan calls these opportunities for growth 'open areas.' One such area is email marketing. Though DoubleClick's activities in email marketing are currently centred on email targeting and delivery, future activities in this sector might lead to the eventual takeover of the entire process of data management in

28 *Information Week*, 20 August 2001.
29 Ibid.
30 Saridakis, interview.

Table 3 Examples of DoubleClick competitors

DoubleClick business line or product	*Examples of competitors*
Advertising sales	Web publishers (AOL, Yahoo!, Terra Lycos, etc.) Other media (television, cable, radio, print) Ad agencies (Ogilvy & Mather, DDB Worldwide)
Networks	24/7 Media, Ad2One, CCI, Engage, L90, MSN Network
Ad serving	AdForce, Avenue A, Mediaplex, Real Media, Sabela Media (a unit of 24/7 Media), companies' internal tech departments
Email marketing	Annuncio, Cheetah Mail, Digital Impact, Exactis (a unit of 24/7 Media), Kana, Lyris, MSN Advantage Marketing, Responsys, NetCreations, (list broker), YesMail (list broker).
Diameter (research)	Dynamic Logic, Ipsos-ASI Interactive, Jupiter Media Metrix, Millward Brown Interactive, Nielsen//NetRatings
Data aggregation	Acxiom, Dun & Bradstreet, Harte-Hanks, InfoUSA, TransUnion
Information, marketing research	Engage, iBehavior, Junkbusters, Prefer.com, Z-24 (a unit of Experian)
CRM products	E.piphany, Kana

Source: DoubleClick 10K SEC filings 2000–2001, online research.

online marketing – hosting, merging and purging data for clients.

Offline, companies already outsource their data management to specialists such as Acxiom or Experian. But Ryan smells change in the air: 'The old thinking is "Give these data to Acxiom because I don't want to handle them." Now, we have a new generation of companies who are thinking differently and have different needs, and the old generation of data management companies is not ready to handle this.'[31]

While DoubleClick's strategic success has been driven by leveraging available opportunities, the company is setting its sights and hopes on its technology, on providing the power and brawn that makes direct marketing work online – and eventually offline. It is continually adding the pieces one by one, improving its offering, and developing new features like Channelview for the catalogue industry or a service for interactive television.

If, however, a market turns unprofitable or detracts from its new core vision, DoubleClick does not hesitate to make difficult choices, including divesting itself of its original businesses. Recent actions seem to substantiate this hypothesis: the sales of its media network in Europe and the US, of its ad effectiveness business to Dynamic Logic, and of @plan, DoubleClick's data research division, to Nielsen//NetRatings.

It is a bumpy evolution towards new terrain. And when all is said and done, even Ryan admits that DoubleClick is hard to pin down in terms of its core businesses. One thing, though, seems clear in his mind:

> What we do does not exist anywhere else. For example, on Wall Street, billions of dollars are being spent, and technology is there tracking every second of it. There are no legacy systems, nothing written in Fortran.[32] It's all new because it's worth it to have. Similarly in the marketing industry, there are billions of dollars floating around. A major automobile company is going to spend $2 billion on marketing. Do they know exactly what worked and what didn't? No, they have a vague idea … The question is: could that process be improved and can you reduce costs? Absolutely. The role of technology and data in marketing is becoming much more significant.[33]

If Wall Street is tracking every second of the billions of dollars spent, does the advertising industry need to do the same? What is DoubleClick's role in this? Should and could DoubleClick become the 'central' Bloomberg terminal for marketers? Or should it just provide the standard technology for others to handle this?

31 Ryan, interview.
32 Fortran (FORmula TRANslation) was the first widely used, algebra-based programming language, designed for mathematics, scientific and engineering applications.
33 Ryan, interview.

Appendix 1 Quick facts and statistics

- Global HQ: New York
  - Regional HQs: Europe – Dublin, Asia – Hong Kong
  - 26 offices in 12 countries
- Employed 1361 (532 in sales and marketing) in May 2002
- 20 data centres around the world
- Listed on NASDAQ (DCLK)
- Revenues: 2001 – $406 million; 2000 – $506 million; 1988 – $138.7 million
- Global customer base in July 2002:
  - Database marketing (Abacus) – 1800
  - Ad-serving clients (DART technology) –1624

Table 17A.1 DoubleClick statistics

	2002	*2000*	*1998*	*1996*
Ad-serving customers (DART, DFA, DFP)	1624	2023	570	35
Sites in network[a]	238	1658	340	NA
Ads served on DoubleClick Network via DART	730 billion[b]	621 billion	34 billion	10 million
Emails served per quarter	2 billion	90 million	0	0
Employees	1361	1929	482	13
Stock price				
High	$13.88[c]	$135.25	$77.13	IPO: $17
Low	$4.68[c]	$8	$13.50	PO: $34.44

a Sold to rival L90 (renamed MaxWorldwide) in July 2002.
b Projected.
c 52-week range on 18 July 2002.

Sources: Company statistics, 6 May 2002; DoubleClick 10K SEC filings 1998–2001; Interactive Advertising Bureau, www.iab.net; Network Wizards Internet Domain Survey, Internet Software Consortium www.kltprc.net/policynotes/gifs/fig_009_1.htm [18 July 2002]; online research.

Table 17A.2 Internet statistics

	2002	*2000*	*1998*	*1996*
Internet users	490 million	259 million	113 million	19 million
Internet hosts	160 million	72.4 million	36.7 million	16.7 million
Internet advertising revenues	$10.3 billion*	$8.2 billion	$1.92 billion	$267 million

* Projected

Sources: Company statistics, 6 May 2002; DoubleClick 10K SEC filings 1998–2001; Interactive Advertising Bureau, www.iab.net; Network Wizards Internet Domain Survey, Internet Software Consortium www.kltprc.net/policynotes/gifs/fig_009_1.htm [18 July 2002]; online research.

Appendix 2 Timeline 1996–2002

The initial idea for DoubleClick sprung out of an eight-month-long basement brainstorming session in 1995 between Kevin O'Connor and Dwight Merriman. At the time, the two were working together at the Atlanta-based software company Attachmate.[1] Convinced of the Internet's potential, they began formulating ideas that would capitalize on it. One hundred ideas later, they deduced that online advertising would be key to the Internet's business model. Thus, the model for the DoubleClick Network was born, with DART as its backbone.

1 O'Connor was the company's Chief Technology Officer and Vice-President of Research, responsible for new markets. Merriman was the company's research engineer.

April 1995	Poppe Tyson (now Modem Media) forms an Internet sales group called DoubleClick.
August 1995	Kevin O'Connor and Dwight Merriman form the Internet Advertising Network (IAN).
January 1996	IAN and DoubleClick merge to form DoubleClick, Inc.
March 1996	The DoubleClick Network launches to provide media buyers with branded sites, content and mass reach through one entry point.
September 1996	DART is offered as a service solution for the first time to Web publishers outside the DoubleClick Network. DART for Publishers or DFP is born. The Wall Street Journal Interactive becomes the first client.
November 1996	Delivers first advertisement on AltaVista.
June 1997	Raises $40 million in venture capital.
August 1997	First international office opens: DoubleClick Japan.
January 1998	Organizes sales force to sell DART technology.
February 1998	IPO raises $62.5 million (offered 3.5 million shares of common stock at $17 per share).
July 1998	Launches DoubleClick Local (for regional and local advertisers)
October 1998	Launches DART for Advertisers (DFA), known at the time as Closed-Loop Marketing Solutions.
December 1998	Secondary offering nets $93.7 million (offered 2.5 million shares of common stock at $34.4375 per share).
July 1999	One billionth ad served.
October 1999	Completes its merger with NetGravity, a California-based industry leader of software for interactive online advertising and direct marketing.
October 1999	Completes its $1.7 billion merger with Colorado-based Abacus Direct, an information and research provider to the direct marketing industry.
November 1999	Moves to its new corporate headquarters in Manhattan.
December 1999	Completes acquisition of Colorado-based Opt-In Email.com, which provides email marketing, publishing and list management. Announces its launch into email marketing with DARTmail. Acquires the remaining 90% of DoubleClick Iberoamerica in a $2.5 million deal with Terra Networks.
January 2000	Lawsuit filed to prevent DoubleClick from collecting personal information on Internet users without their prior written consent. Several class-action lawsuits follow. DoubleClick takes a 30% equity stake in ValueClick, Inc., an advertising network that utilizes a cost-per-click model, for $85 million in stock and cash. Completes a two-for-one stock split of common stock.
February 2000	The US Federal Trade Commission (FTC) launches an investigation into DoubleClick after the Electronic Privacy Information Center accuses it of planning to merge anonymous online data with Abacus's identifiable household data. Announces creation of chief privacy officer position.

May 2000	Acquired for $19.6 million New York-based Flashbase, Inc., a creator of completely automated solutions for the design and management of online sweepstakes.
July 2000	Names Kevin Ryan as CEO. Kevin O'Connor to continue as Chair.
November 2000	Appoints Brian Rainey as President of Abacus. Hires Susan Sachatello as Chief Marketing Officer.
December 2000	Announces it will break even, beating expectations by $0.02 per share. Terminates merger agreement with email marketer NetCreations, Inc. Receives break-up fee of $8.6 million.
January 2001	FTC closes its investigation into DoubleClick's data-handling practices. Finds no violation of the company's privacy policy.
February 2001	Finalizes acquisition of @plan for $104.3 million in cash and stocks.
March 2001	Serves one trillionth ad. Divides ad business into two networks – audience and brand. Announces 10% cut in workforce (200 jobs).
April 2001	Acquires B2C Toronto-based email marketer FloNetwork, Inc. for $52.7 million in cash and stocks.
	Launches Diameter.
May 2001	Acquires technology assets of Sabela Media from competitor 24/7 Media.
June 2001	Launches DART 5.
September 2001	Acquires media buying and planning technology from interactive media agency Adgile Interactive based in San Francisco.
October 2001	Purchases rival L90's ad-delivery technology.
December 2001	Sells off ad effectiveness research practice to Dynamic Logic, an online research firm, for a 10% equity stake.
	Promotes David Rosenblatt to President. Names Bruce Dalziel as Chief Financial Officer. Hires Mok Choe as Chief Information Officer.
January 2002	Announces a positive pro forma EPS of .01¢ per share. Reorganization of sales force by customer group: TechSolutions (publishers, marketers, agencies and direct marketers) and Media (brand advertisers and agencies). Completes $12.5 million all-stock acquisition of MessageMedia, a provider of permission-based email marketing and messaging solutions. Sells its European media business to Germany's AdLINK Internet Media AG for _30.5 million and a 15% equity stake.
March 2002	Agrees to a settlement on privacy litigation. Under the two-year agreement, the company will give clear notice of its privacy policy and explanations of its services; ensure that users must opt-in to have personally identifiable information combined with anonymous online information; serve 300 million consumer privacy banner ads; carry out routine purging of collected online data; and limit the life of new ad-serving cookies to five years. infoUSA buys DoubleClick's email list services division for an undisclosed sum, obtaining 40 million opt-in addresses, 28 million postal names and addresses and 45 branded lists.
May 2002	Nielsen//NetRatings and DoubleClick form a strategic data partnership. DoubleClick sells @plan research tools to Netratings for $18.5 million in cash and stocks. Pledges to integrate the tool into its DART and MediaVisor software.
June 2002	Buys remaining 50% stake in Abacus Direct Europe launched in 1998 (26 million households, 250 retail companies) from Claritas Europe, a Dutch data-research company, to expand in Europe. Claritas will continue to provide data products to Abacus's European operations for five years.
July 2002	Reports a net profit of $4.1 million or $0.03 per share. Sells US media operations to its Los Angeles-based competitor, L90, which renames itself MaxWorldwide, for $5 million and 4.8 million shares. Will get seats on the board of the company, plus $6 million if MaxWorldwide is profitable in the next three years.

Appendix 3 Abacus Direct

Started in 1990, Abacus was conceived of as a data alliance: companies that shared their data would receive prospective customer lists and data modelling in return. Initially, the company grew slowly because, as Kevin Ryan pointed out, companies were reluctant to share their 'bread-and-butter' customer lists with potential competitors. However, cataloguers quickly realized that the positives far outweighed the negatives, and business picked up steam. DoubleClick merged with Abacus Direct in 1999 in a $1.7 billion deal.

Today, the Colorado-based company has chugged ahead to become the US's 'largest proprietary database of consumer, retail, business-to-business, publishing and online transactions used for target marketing purposes.'[1] It contains almost three billion transactions from more than 90 million US households, including geographic, demographic, lifestyle and behavioural data. The company uses the sales data for consumer behaviour modelling and helps catalogue companies to analyze and maximize their own mailing lists.

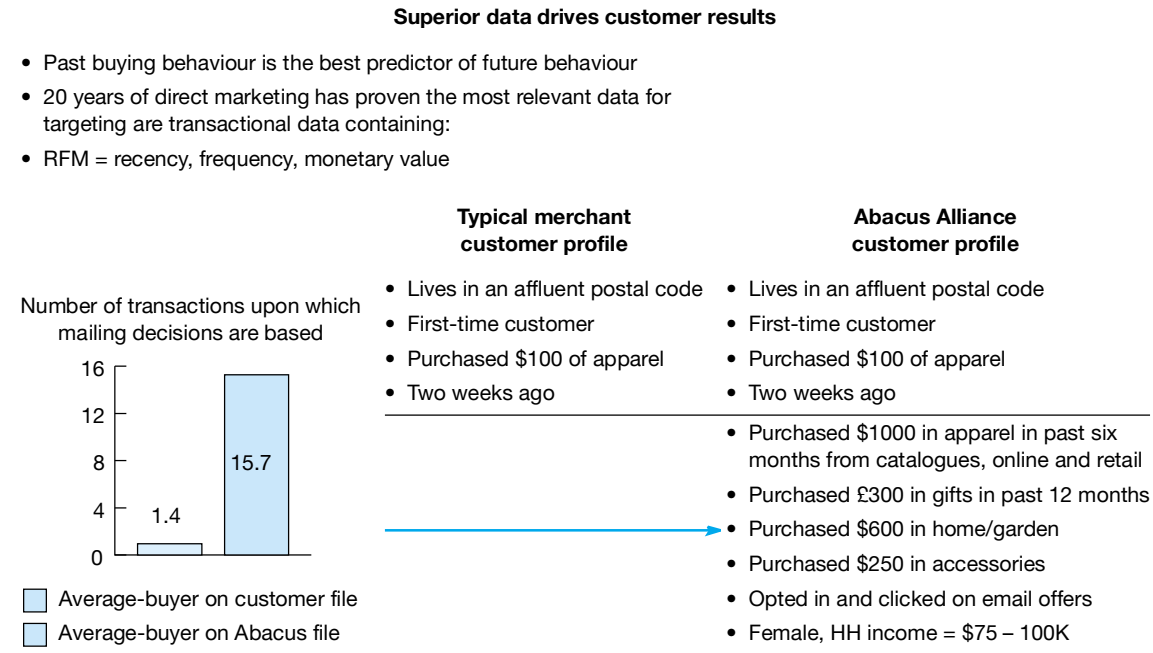
It provides its members with the following products and services:

- *Channelview* is a web-based, multi-channel analysis tool that allows direct marketers to follow a campaign across multiple channels such as websites, retail stores and catalogues.
- *Housefile modelling* rates customers' propensity to make repeat purchases, weeding out unresponsive consumers.
- *Optimization modelling* allows cataloguers to select those most likely to make repeat purchases on a given list.
- *Prospect modelling* allows cataloguers to identify and add new customers to their lists.
- *Market research* provides information on customers, business, competitors and the marketplace.

Competitors include ACNielsen, to which DoubleClick sold its research tools in May 2002, Acxiom, Experian, Harte-Hankes and infoUSA, which bought DoubleClick's email list services division in March 2002.

1 Company website: www.abacus-direct.com/, 16 July 2002.

Exhibit 5.7 Value creation depends on benefits and cost positions



Source: DoubleClick corporate presentation 4Q01

DISCUSSION QUESTIONS

1. Is DoubleClick a media network, a technology company, or neither? What really are its core competences?
2. Is DoubleClick the online version of the offline advertising agencies or something different? If the latter, what are the differences, and how is Internet-based advertisement compared to the traditional offline?
3. What is the role of the DoubleClick network? Was it instrumental for the growth of the company?
4. What was the idea behind the acquisition of Abacus? What is the key competitive advantage of Abacus?
5. Why did DoubleClick sell its technology? What is the breadth of data it has in the marketing tools arena?
6. Does DoubleClick really have to be either a technology or a media (network) company? Where would you suggest that DoubleClick go to now?