Forbes

Online Publishers

Could Recession Help Big Media?

James Erik Abels, 10.15.08, 7:45 PM ET

Today's ugly media truth: Online advertising rates are falling. "Pricing has definitely trended downward this year," says PubMatic President Rajeev Goel.

His firm, which lets publishers automatically search mulitple ad networks to find the one that will earn the most money, has been tracking online display ad rates since the fourth quarter of last year. In a report issued on Wednesday, Goel says these rates dropped 21% in the third quarter of this year to $0.27 per thousand impressions from $0.34 per thousand impressions in the second quarter. The information is culled from some 180 online ad networks, including seven of comScore's top 10 largest ones.

Numbers like these chill media honchos from coast to coast. At a Media and Money Conference in New York on Tuesday, a whole panel of executives discussed the issue. Martha Stewart Omnimedia co-CEO Wenda Harris Millard said she's worried, noting that advertisers are holding out until the last second to buy ads.

But so far it's hard to say how a recession will impact digital media. On one hand, the rate of online display ad spending *has* been slowing down. Though it reached $11.5 billion in the first half of this year, reports the Internet Advertising Bureau, the 15.2% growth rate that got the industry there was a lot slower than the rate seen in the first half of 2007, which was 27%.

On the other hand, the slowing market may actually help, boosting traditional media's control over the digital media ecosystem by giving it an opportunity to buy smaller upstarts or watch them get crushed. Think about it this way: The digital businesses that may be hit hardest by a downturn aren't really media businesses at all. Instead, outfits like Facebook, Meebo, and Twitter provide fun tools and communications technologies for people who, when aggregated in one spot, may be worth a lot of ad dollars--if they can actually grab them.

That's going to get tougher. Chrysler said Wednesday that it is starting to withhold ad dollars from "experimental" ad campaigns for things like virtual worlds or social networking applications. That hurts Facebook but maybe not traditional publishers like Hearst. It's also bad news for ad networks and helps to explain their plunging rates.

Here's why. Advertisers have a pretty good idea on their own of who is paying attention to certain types of editorial content--and they bet its quality level improves the value of their ad. In the media universe, it's called "sold against" and it's nothing new. But online advertising networks, which place ads via technology, have devalued the notion in recent years by making ad serving a commodity business that benefits nonmedia sites as much as it does media ones. Some see the value of "sold against" gaining more ground online in a nervous time when fewer dollars are available.

Brian Fitzgerald, president of Gorilla Nation Media, an ad rep firm that exclusively sells display ads for publishers and others, such as Marvel, says his rates aren't slipping yet. And though he admits it's still early to know how the markets will ultimately affect them, "We're actually seeing revenues growing, CPMs are constant," he says.

Constant--and a whole lot higher than $0.27 per thousand views.