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FIRST

ONLINE ADVERTISING CLICKING FOR DOLLARS

AS A VICE PRESIDENT AT HEDGE FUND D.E. Shaw in the mid-1990s, Anil Kamath helped bring sophisticated computer-driven investing strategies to Wall Street. Now he and other quant jocks are taking aim at Madison Avenue. Their goal: to bring financial-markets-style trading systems to the \$9.5 billion online ad industry. And the quants are finding believers. Venture funding to the sector jumped from \$25 million in 2003 to \$175 million in 2004, according to VentureOne, a research firm.

Kamath's firm, Efficient Frontier, focuses on the simple text ads delivered by search engines. Google and Yahoo dominate this market, with online auctions in which advertisers bid for placements on search results pages. In mid-March on Yahoo's network, for example, the top spot on the results page for the term "mortgage" sold for \$11.03 per click. E-LOAN, a Kamath client, paid \$7.21 for a lesser spot. Which was the better investment?

That's where Efficient Frontier comes in. Founded in 2002 in Silicon Valley, the company helps advertisers buy the most cost-

effective clicks. One technique is to expand the number of keywords used, and then to optimize the keyword portfolio, tracking individual ad performance and setting bids accordingly. A typical Efficient Frontier client maintains thousands of keywords. E-LOAN uses 250,000; one Kamath client has a million.

The trend towards quant-driven ad buying is not limited to the world of search engines. Ad networks run by companies such as Advertising.com (which was bought by AOL, a division of Time Warner, FORTUNE's parent) purchase banner-ad inventory from publishers and use software algorithms to optimize their advertisers' campaigns. Startups like Right Media in New York aim to go one step further by creating a single auction market for all online ad transactions. And everyone is looking to a not-too-distant future when the same systems will be used to buy and sell ads on digital TV and radio. Industry wags already have a catchy slogan: "Welcome to the ADZDAQ." — *Oliver Ryan*

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