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Quantcast

"It's not broadcast; it's delivery. It's fragmented and it's frighteningly powerful – and quantifiably so." Quantcast CEO Konrad Feldman beamed as he talked about the Internet and how it differs from traditional media. He was doing an interview with FastCompany, a magazine which had recently ranked his real-time website analytics company, Quantcast as the world's third most innovative online company, just behind Internet behemoths Facebook and Google. Over the last decade, as the world moved from traditional media forms such as print and television to the Internet for communication, entertainment and business, traditional consumer insights and market research companies such as Nielsen that used sampling methods scrambled to frame questionnaires for the new online audiences. Meanwhile, Feldman, with his cofounder Paul Sutter, decided to completely rethink online consumption analytics. In 2006, they founded Quantcast, which used online tracking tools (cookies) to accurately measure user interaction on websites and advanced predictive models to identify user demographics; or, as Feldman puts it, "to bridge the gap between Silicon Valley and Madison Avenue."[1]

Technical and Business Model

Quantcast is a perfect example of what Bower and Christenen defined as a disruptive innovation. Instead of asking sampled users to fill out questionnaires about their usage patterns, it embedded a short snippet of code into the code-base of "tracked websites". Whenever a user visited a tracked website, the code would send an "HTTP cookie" to the user's browser. Cookies are small pieces of data that can be sent to and from a user's computer and are traditionally used to speed up page loading. This Quantcast cookie then tracks usage patterns on the website and collects data such as pages visited, minutes per page, interaction with page etc. Once the user visits a new tracked website (i.e. website with embedded Quantcast code), a new cookie is sent to the user

which signals the previous cookie to be sent back to Quantcast (refer to Exhibit 1)[2]. This exchange of cookies allows Quantcast to extract usage data from the cookie and also to map the path of the different websites a user visits. The usage pattern and information shared on the different tracked websites helps them predict the user demographics.

There are two key players in Quantcast's supply chain: the tracked websites and advertisers/marketers. Quantcast aggregates this data and builds advanced predictive models to recommend websites to target specific demographics required by the advertisers. The majority of the revenue is generated from selling these reports to advertisers. What differentiates Quantcast from its competitors is the high level of precision and accuracy of its models. This is achieved in two ways: First, Quantcast uses advanced data mining techniques similar to Google Analytics, gathering accurate data directly from websites. It combines this data with sophisticated predictive models – much like the models built by traditional consumer analytics companies such as Nielsen. Feldman developed his expertise in advanced analytics and modeling from his time as founder-CEO of SearchSpace[3], the leading provider of illegal access detection and anti-money laundering technology in the financial services industry.

Second, the models were very precise because of the large number of websites that data was aggregated from. Quantcast has over 100 million tracked websites[4]. Instead of charging websites to perform site-specific web analytics for them, Quantcast offered them this service for no cost. Essentially, it gave away consolidated data it collected from the cookies on these websites to the website owners for free[5]. Instead of monetizing through site-specific analytics, it created a large network of tracked websites, allowing it to collect more data than its competitors who typically charge websites or use a freemium model. The higher level of accuracy of the reports generated from this data allowed them to create a sustainable advantage and thus charge advertisers higher than the industry average prices for them (higher utility for advertisers = higher price paid by advertisers with cost = lost revenue from selling analytics services to websites).

Competitive Landscape

A few major players - Google Analytics, Quantcast and Alexa - dominate the analytics industry. These companies experience considerable benefits from the network effect, an effect that locks

advertisers into the service on one side of the market because of the information the site generates from the websites on the other side of the market.

Significant barriers to entry exist for new entrants to the analytics industry. Millions of websites are already signed up for free user-tracking services. Media companies currently pay the major analytics sites anywhere from a few hundred to hundreds of thousands of dollars a year to better reach their audiences. Additionally, analytics companies must have significant technical expertise and scaling capabilities to obtain the comprehensive user behavior information needed to challenge the major players.

Direct Competitors

Google Analytics

Google analytics is the analytics industry leader as it currently being used on 55% of the world's 10,000 most popular websites[6]. The site has experienced phenomenal growth recently with 47% of companies currently using Google Analytics exclusively for tracking purposes, an increase of 23% from 2009[7]. Google Analytics offers two types of services: a free tracking tool and Google Analytics Premium. Its free service allows websites to compare user data over time and integrate their AdWords account. Adwords integration enables a company to see the displayer, clicks, cost and purchases of e-commerce goods that result from ads a company places using Google's Adwords[8]. Google Analytics Premium offers corporations and high traffic companies, such as Twitter, Visa, and Sony[9], who have all signed up for the service, faster processing and more comprehensive data for a flat annual rate of $150,000[10].

Alexa Internet

Founded in 1996, Alexa offers information including the average page views per user, user time on site, visitor demographics and search traffic data for free on its website. The site also offers a premium service, Alexa Pro, with monthly fees ranging from $9.99, which includes a premium listing on Alexa.com designed to drive traffic to participant sites, to $149, which includes twice a month audits of a user's site's performance[11]. Customer information is obtained from tracking the behavior of users who download the Alexa toolbar. Over 6 million people visit the site every month[12].

Compete.com

Compete.com was founded in 2000 and tracks the behavior of visitors to the top 1,000,000 websites in the U.S. The site has two services, one free and one premium: Site Analytics and

Compete Pro. The free service allows users to see the traffic volume from five websites. Compete Pro gives its clients detailed reports about their customers and starts at $199 per month[13]. Compete.com only obtains user information from the U.S. It collects this data from internet providers, users who download the Compete toolbar and application companies[14]. The site currently has over 2 million registered users[15].

Substitutes

Nielsen Company

Nielson Company is a multibillion-dollar American information analytics company traditionally associated with T.V. ratings. The company tracks what T.V. programs and ads people watch and what they buy. Nielson pairs with media companies, such as CBS, NBC Universal, and The Walt Disney Company, to help advertisers sell their products most effectively[16]. One shortcoming of the Nielson system's presence in traditional media forms is the disparity between the reach and frequency of advertisements and the direct impact these advertisements have on audience behavior. To take advantage of the booming e-commerce industry, the company has aggressively expanded into the social media and mobile markets and currently tracks the behavior of 65,000 U.S. mobile subscribers to better understand the industry[17].

Non-Data Driven Strategy

Companies may also decide not to use third party analytics websites, opting instead to conduct their own research. Smaller companies or mom and pop stores that do not have an active marketing campaign or a significant web presence may derive more benefit from collecting information from their in store sales about the type of products customers are most likely to buy. The store can then advertise that particular product, a cost saving and simple method, that works given the store's capabilities.

Future Growth

Since its founding in 2006, Quantcast has grown to directly measure 100 million websites[18]. The company's ever-increasing base of non-paying customers presents prime opportunities for further monetization. Additionally, aggressive monetization strategies will provide Quantcast with a

sustainable business model that will help the site expand and challenge the bigger players in the market.

Economic Value

Quantcast Measure's value offered to websites consists of two parts. The first value is the quality of Quancast's analytics for the price; Google charges $150,000 per year for comparable services[19]. Furthermore, websites also benefit indirectly from marketing agencies under Quantcast Advertise who use the data to better their own services. The publicly listed data on Quantcast's site also provides an opportunity for advertisers to discover websites. The second aspect is that the public data lowers Quantcast Measure's value. The absence of privatization means that anyone, including a customer's competitors, can view a website's demographic details.

Monetization Strategies (Revenue Growth)

Quantcast faces three strategic choices for further monetization: data privatization, mobile expansion and premium services.

Data Privatization

Short, consolidated versions of Quantcast's reports are available to anyone who visits Quantcast.com. Visitors can type a website's name into a search bar and view a report similar to the one made available to the website itself. While many publishers don't mind this, there are other publishers who have requested their data be kept private. Currently, Quantcast allows publishers to do this for free. However, Quantcast can capitalize on its customers' desire to keep their information private by charging a privatization fee. Quantcast's service is free, in part, based on the condition that the information be made public as this attracts people to the Quantcast.com. Therefore, if publishers refuse to participate in data sharing, they should be charged for the value Quantcast loses from their secrecy. This strategy will not only increase Quantcast's revenue, but also help ensure that only publishers who have a strong incentive to privatize their data will do so. The absence of a fee can lead to excessive privatization, reducing the publicly available data and ultimately harming Quantcast's value to advertisers.

Since this service is currently offered for free, Quantcast will likely face customer backlash by charging a fee for this service. Some previously non-paying publishers, who chose to make their

data private, may switch from using Quantcast. Data privatization generates additional revenue for Quantcast by increasing consumers' costs and transferring the lost value to Quantcast; there is no value added for consumers.

Expanding Mobile Offerings

Currently, Quantcast offers very little in the way of mobile analytics. It provides basic statistics such as page visits per month, the mobile operating system visitors use and a count of mobile versus computer hits. Despite the technical difficulties in implementing web analytics in the mobile space, competitors are offering more robust services. In addition to basic traffic stats, Google Analytics offers location-based statistics and mobile app performance statistics.

Increasing its mobile analytic services will require a substantial investment in additional analytic capabilities by Quantcast. Despite the cost, the investment is essential. Smartphone data usage grew 89% from June 2010 to June 2011, with data usage from the top 1% growing 155% from 1.8GB in Q1 2010 to 4.6GB in Q2 2011[20]. Additionally, smartphone market penetration grew 38% from February 2011 to February 2012, when it hit 50% of total mobile devices owned in the US[21]. Mobile web usage represents a significant portion of online activity and should be factored in to web analytics.

Offering new mobile services presents an opportunity for further monetization as increasing the quality of Quantcast's service increases value to customers. Quantcast can charge for this extra value. The main considerations regarding this strategy are the current technological limitations with mobile data tracking, as well as the expenditure required to offer the extra mobile services[22]. Despite these initial challenges, Quantcast must pursue mobile initiatives to stay competitive regardless of how it uses its new capabilities to monetize.

Premium Services

In order to further monetize, Quantcast can continue to offer a free service, as well as a new premium service at a fee. The premium service could consist of a personalized support staff and additional data processing capacity. These services would increase Quantcast's value added to customers, providing an opportunity for monetization.

Premium services would require additional labor and infrastructure expenditures on Quantcast's part, which could detract from resources available for other projects, such as mobile

expansion. Additionally, many of Quantcast's current customers use the website because it's free. Therefore, Quantcast will risk losing customers or not having customers use the premium service, resulting in an inability to recoup its investment.

Recommendation

We recommend that Quantcast commit to expanding its mobile offerings for two main reasons. First, mobile expansion will add value for customers. Quantcast's other strategic options involve lowering value for customers and charging them for services they already have for free. Adding new services will give Quantcast opportunities for monetization while avoiding customer backlash.

Second, mobile expansion will be inevitable in the future regardless of Quantcast's decision right now. Aggressively pursuing a mobile strategy now will help Quantcast gain a foothold in the rapidly growing mobile market. Since mobile expansion in the long run is expected given the growth in the industry, the cost of eventual mobile expansion for Quantcast is unavoidable. Monetizing mobile provides a key opportunity for Quantcast to capitalize on its investment.

Feldman's Quantcast team faces the challenge of how to monetize during a period of tremendous growth in the analytics industry. Choosing the right growth strategy now will determine whether Quantcast's founder can achieve his dream, transform an industry and truly bridge the gap between Silicon Valley and Madison Avenue.
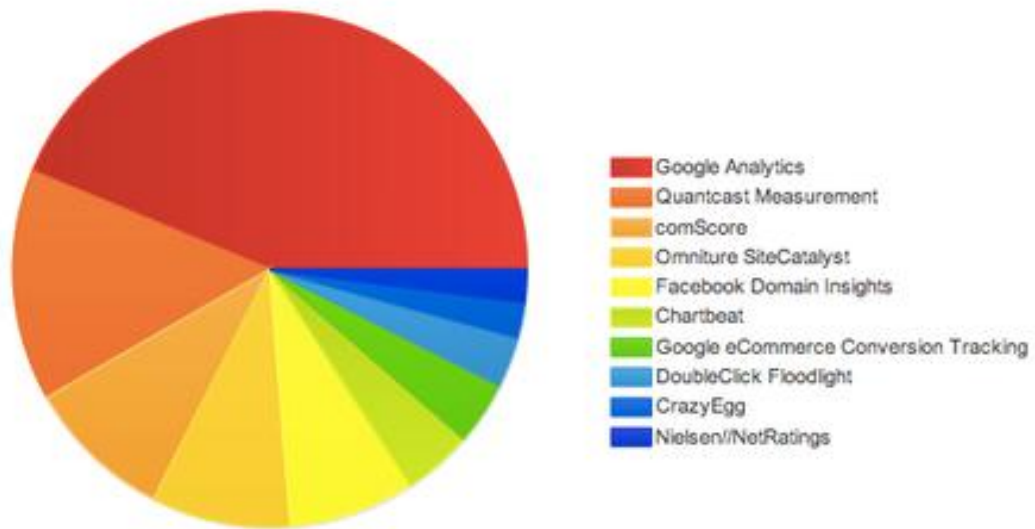
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quɑntcast
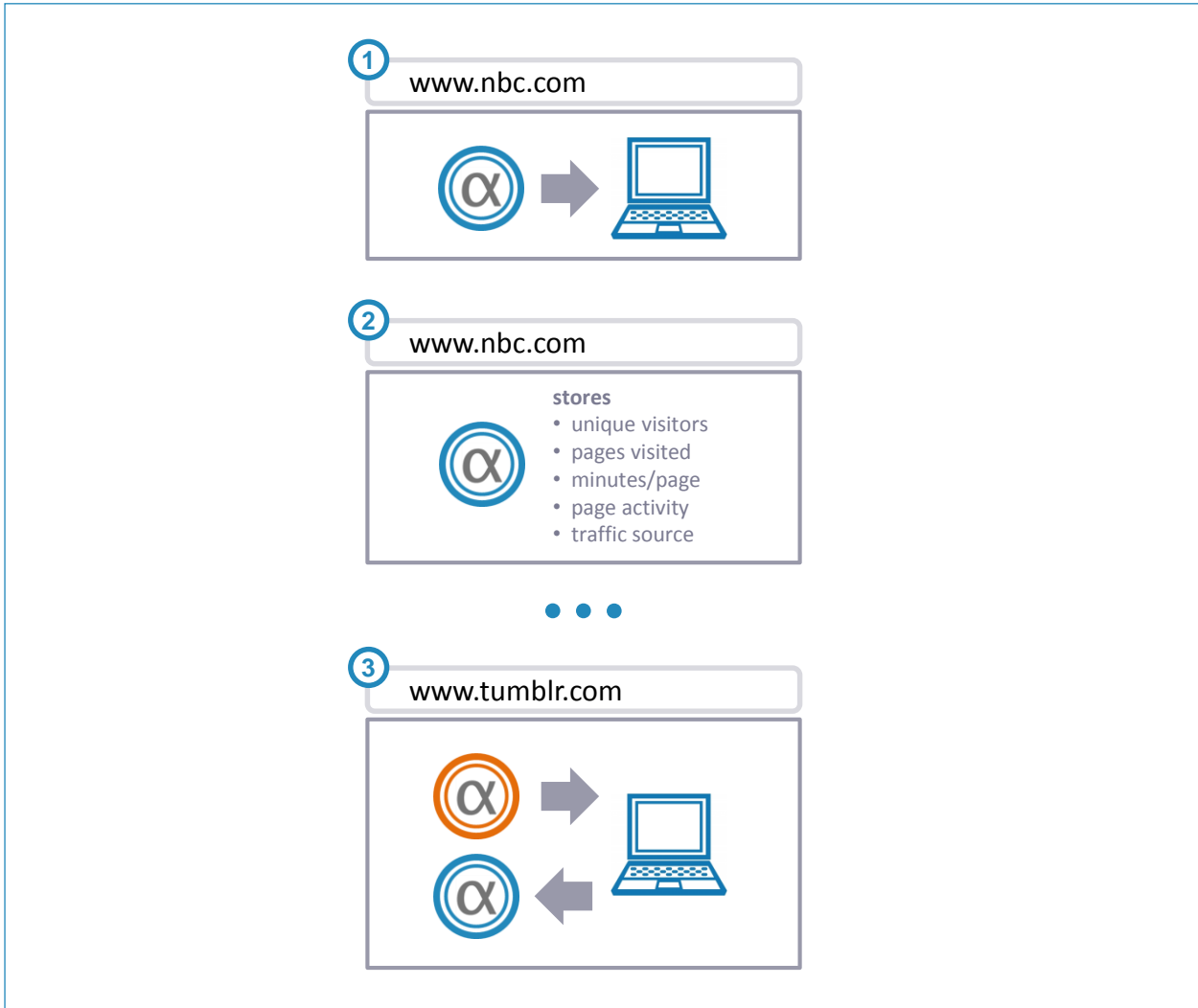
Exhibit 1:

Data Extraction Process (using HTTP cookies) from Target Website

Exhibit 2:

Analytics Distribution in Top 10,000 Sites

Google Analytics
Quantcast Measurement
comScore
Omniture SiteCatalyst
Facebook Domain Insights
Chartbeat
Google eCommerce Conversion Tracking
DoubleClick Floodlight
CrazyEgg
Nielsen//NetRatings

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Exhibit 3:

Quantcast's Competitors

| Company	Free Service	Free Service Capabilities	Premium Service (per month)	Premium Service Capabilities
Google Analytics	Yes	Analytic data over time comparisons, integration with Adwords	$12,500	Faster processing, more comprehensive data
Compete.com	Yes	Tracks behavior of users to top 1,000,000 websites	$199 +	Detailed analytic reports for companies
Alexa	Yes	Average page views per user, user time on site, visitor demographics, search traffic data	$9.99- $149	Premium listing on Alexia designed to increase site traffic, analysis of client site effectiveness

Exhibit 4:

Industry MB Usage by Percentile - Smartphone Only

■ Q1 '09 Industry (n=4474) ■ Q1 '10 Industry (n=6487) ■ Q1 '11 Industry (n=8807)
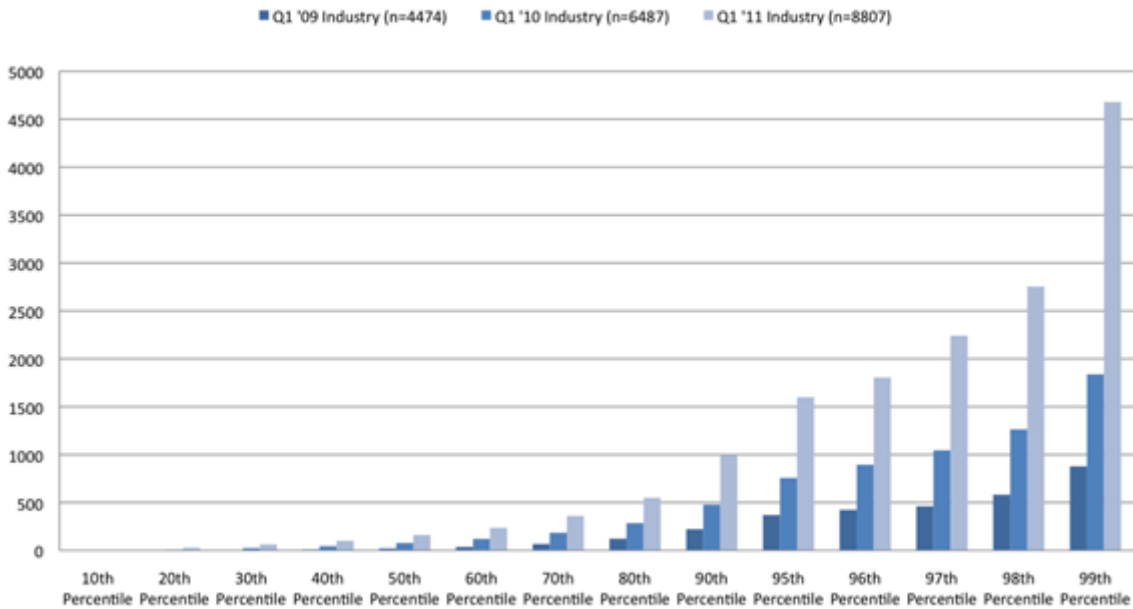
Source: Nielsen

U.S. Smartphone Penetration

February 2012, Nielsen Mobile Insights

— Smartphones   — Feature Phones
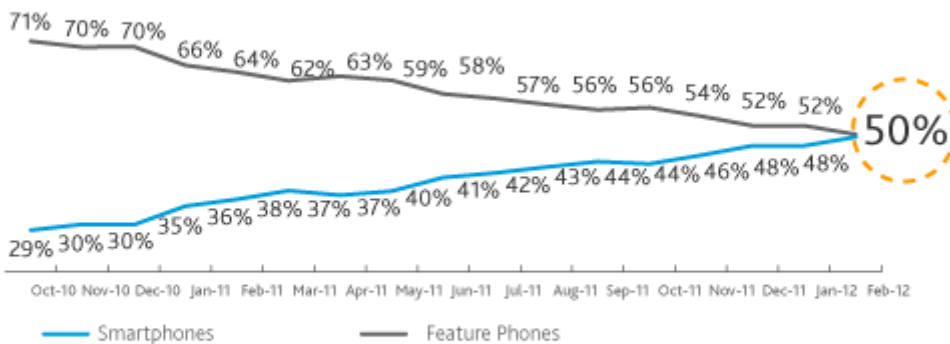
Read as: During February 2012, 50 percent of US mobile subscribers owned a smartphone

Source: Nielsen

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