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Introduction

The most dynamic segment on the Russian advertising market today is online contextual advertising. With spending growth of 150-200% per year, the segment vastly exceeds the sales rates for advertising in traditional media (no more than a 30-36% growth in 2006, according to RACA, Russian Association of Communication Agencies). Contextual advertising in the Russian Internet outstrips display advertising both in development rates (+60% in 2006) and in absolute sales figures ($110m in 2006).

As of June 2007, Yandex.Direct system contextual advertisements are being displayed over **140m times** per day on weekdays, and there are over **1.2 - 1.3m** user clickthroughs to advertisers’ websites. From January to December 2006, the Yandex.Direct system registered **147m** user clicks on contextual ads. According to Yandex.Direct, **monthly traffic to websites in the Russian Internet** generated by contextual advertisements **grew by almost four times** in 2006.

Yandex announced «that they were starting to accept ads for displaying on the pages of the search engine» on March 16, 1998, six months after launching www.yandex.ru. In the **summer of 2001** Yandex.Direct launched a tool for self-serve text advertising on search results pages, which kick-started the de-professionalization of the online advertising market in Russia. In 2002 the Begun company was launched (the same year Google started selling con-
textual advertisements). **2004 can be regarded as the peak year when** contextual advertising really took off on the Russian Internet, reaching a million dollars.

This information bulletin is based on the data from Yandex.Direct, the first and the largest ad-serving system in the Russian Internet. In 2006 Yandex.Direct hosted advertising campaigns for more than 30,000 advertisers. Ads are being displayed on www.yandex.ru, **and on partner websites,** as well as members of the Yandex Advertising network. The data covers the period from January 2006 to June 2007.

**Russian Market for Contextual Advertising: Characteristics, Players, and Other Facts**

**Market Volume and Other Indicators**

According to Yandex, the volume of the contextual advertising market in 2005 and 2006 in Russia increased by 2-2.5 times, and in the previous years the growth rates were even higher. In 2006, **contextual advertising outstripped display advertising** for the first time in the history of the Russian Internet, not only in growth rates, but also in absolute values. According to the joint estimate of analytical services of Rambler, Begun and Yandex companies, the turnover of the contextual advertising market in Russia in 2006 **amounted to $110m (+145% over 2005).** The turnover of online display advertising in 2006, according to RACA (Russian Association of Communication Agencies), totalled another **$100m (+65% over 2005).**

Yandex forecasts that outstripping growth of the contextual advertising market will continue in 2007.

Other indicators that describe the capacity of the contextual advertising market are growing just as fast. According to Yandex.Direct, **the number of advertisers using contextual advertising in the Russian Internet increased by 1.6 times in 2006,** and the number of active **advertising campaigns grew by 1.7 times.** In the previous year, both indicators doubled.

**Sales principles for contextual advertising**

Online contextual advertisement’s content corresponds to the subject of the page it is displayed on. A contextual advertiser specifies a set of key words, and his advertisement unit is delivered on the pages of search engines matching the corresponding search queries (search advertising), or on the pages of content websites matching their subject (content advertising).

At the dawn of the contextual advertisement evolution, the schemes for selling contextual advertisements were the same as those traditionally used in other media; i.e either timing or number of displays (a kind of an analogue to a «pay-by-contact» scheme.) This pricing model is called CPM (cost per mille), the advertiser pays for each thousand displays.

Other schemes are gradually increasing in popularity, such as, pay per clickthrough (pay for a user’s click on an ad unit, cost per click, further on, CPC model), pay-per-action (cost-per-action, further on, CPA), pay for a registration form filled out by a converted user, or pay for an executed purchase.

In the Internet market outside Russia, the pay-per-click scheme was first used by Yahoo! in 1996. The Russian contextual advertising market first introduced similar CPC-products in 2002-2003. One of the main features of the modern CPC-model of payment is that the pricing is formed by auction: it is not the advertising site that sets the price, but the advertiser himself actively manages the price, and, by doing this, can change the position of his ad unit.
Along with the market growing and expanding, advertisers’ budgets for contextual advertising are also growing. According to Yandex.Direct, the monthly budget allocated by an average advertiser for their contextual advertising campaign, essentially doubled during both 2005 and 2006.
The Russian market for contextual advertising is getting more and more mature. This is indicated not only by the steadily growing average and gross measures (volume, budget, number of advertisers), but also by the increasing segmentation of the market. As advertisers are becoming more varied, they need to solve new marketing problems. As a response to changes in the developing demands, contextual ad-serving systems offer new opportunities and new tools.

The changes of the average cost per click is a good illustration for changes in demand and corresponding changes in supply (see fig.4). According to Yandex.Direct, during 2005, it was steadily growing (+65% by the end of the year), but in 2006, the indicator’s growth stopped. Largely, this was incidental to that fact that many advertisers couldn’t raise the bid anymore: it was beyond their business capacity to pay more for each visitor to their website.

To attract new clients with strictly limited or low bids, Yandex.Direct lowered the minimal bid from 3 roubles (approximately $0.1) to 30 kopeks (approximately $0.01). As a result, advertiser’s average cost per click lowered dramatically, but as shown in fig.2, there was an increase in the number of advertisers and advertising campaigns. This, in turn, caused the growth in contextual advertising turnover, foiled by the decreasing average cost per click. After several months, the average bid resumed a growth pattern, as the competition among the newcomers intensified.

As of April 2007, according to Yandex.Direct, the average bid was approximately 10% higher than April 2005 (see fig.4). Thus, the change in the average bid stimulated market expansion; this opened the market to advertisers and to low-margin business segments. The average cost per click in high-margin and highly competitive segments (such as the plastic windows market) remained equally high.

Compared to other types of advertising, contextual advertising has a critical, differentiating feature. It can meet customer’s needs instantly, and it offers those products and services that the customer is interested in at a particular moment. The customer makes an effort to find these offers, and this is the reason why contextual advertisement targets the audience most precisely.
The noted decrease in average cost per click is not a general indication of all the Russian market for contextual advertising: it was only Yandex.Direct who lowered the minimal bid, Begun kept their rates constant.

The overall growth of the Russian market for contextual advertising is caused not only by the pricing competition among advertisers (though, no doubt this has an effect), but also by the new advertisers (including those in low-margin business) entering the market. The increasing investment in contextual advertising and the general growth of the advertisement audience are also factors in the overall monetary growth of the market.

One of the main development trends in the Russian advertising market is that the contextual advertising is becoming increasingly popular, that is, there is a qualitative expansion of client base for contextual advertising.

As the market for contextual advertising is developing and ad-serving terms are changing, advertisers’ behavior also changes. The most interesting trend is that contextual advertisers tend to expand their audiences by expanding the set of key words for their ads.

According to Yandex.Direct, the proportion of search queries in 2006 bought by the advertisers (search queries, according to which contextual advertisements are displayed), among all queries of Yandex search en-

![Fig.4. Changes in the average cost per click (per visitor's clickthroughs) rate](image1)

![Fig.5. Change in the share of queries, bought for contextual ads displays on Yandex search, in the global pool of queries](image2)
gine, almost doubled. This growth was also stimulated by the opportunity to set a low cost per click.

Fig. 5 demonstrates clearly that an increase in the proportion of queries, displaying Yandex.Direct ads, that began in September 2006, after the reduced minimum bid was introduced.

The overall growth in the number of contextual ad displays in 2006 amounted to 475%; the number of clickthroughs from contextual ads to advertisers’ websites has grown by 280%. The latter figure means that the traffic of the interested visitors affected by contextual advertisements, within the year has grown almost four times.

Growth trends of the market indicators this year remain as they were in the previous years. According to Yandex.Direct, within the first four months of 2007, the average monthly budget for an advertising campaign has grown by 10% (topping more than by 1.5 times the average monthly budget for the same period in 2006), and the number of advertisers and advertising campaigns has increased by 10%.

Major Players

Today, the Russian market for contextual advertising is shared between two major players: Yandex.Direct and Begun. According to available information, Yandex.Direct occupies 55-60% of the contextual advertising market in Russia, and Begun has 30-35% in terms of revenue. The remaining portion is shared by smaller players including Rorer, Google AdWords, Link.ru and «Optimist», among others.

Search engines have traditionally been, and still remain, the main ad-serving sites for contextual advertising. But, the share of contextual displays in advertising networks (networks of content websites, which host contextual ads on their pages from a market player) is gradually increasing.

Reported by Yandex.Direct. Summer 2007
Portrait of Contextual Advertiser

Who buys contextual advertisements?

The lion’s share of contextual advertisers are small and medium-sized businesses. This is reflected in the size of their budgets for advertising campaigns. According to Yandex.Direct, in the first four months of 2007, the mean monthly budget for a contextual advertising campaign was around 6,500 roubles or $250 USD (the mean one-time bill issued to one advertiser was around 4,500 roubles or $74 USD; at the same time, there are advertisers whose larger budgets amount to hundreds of thousands roubles.)

One-time bill of payments for contextual advertising campaigns, on average constitute 70% of the markets monthly turnover; contextual advertisers generally prefer to pay their current balance as it exhausts to paying in advance or in monthly payment transfers.

In Russia, the companies willing to devote the largest budgets to contextual advertising are mainly high-cost-client-attraction businesses: participants in construction market, car dealers, as well

In general, contextual ad-serving systems offer to the advertiser an opportunity to create and manage an advertising campaign single-handedly. Most clients prefer to use the advantages (and patiently cope with disadvantages) of self-service. However, some advertisers contact the sales department of a particular ad-serving system, or a specialized advertising agency. Today, 70% of Yandex.Direct clients manage their campaigns themselves, 13% use the services of the advertising department of Yandex («Carefree» payment plan), 17% order contextual advertisement through advertising agencies. Consequently, the first group makes up for 43% of YandexDirect turnover, the second provides 37%, and the third accounts for 20%.
as producers and suppliers of manufactured products (B2B-segment). A significant portion of the turnover in the market for contextual advertising is provided by consumer electronics sellers, finance and insurance companies, the business services sector, tourism companies and real estate market (see fig.9). Nearly all of these sectors are among the top 10 in terms of the price they are willing to pay cost per click (clickthrough from their ad).

At the same time, this list has other, not-so-high-yielding, sectors, such as marketing and PR-services; language, computer and business courses; and online services. In Yandex.Direct, with the minimal cost per click of 30 kopeks (approximately $0.01), the owners of these businesses often set an average cost per click at 10 roubles (approximately $0.3) or more, at that, the highest cost per visitor is offered by providers of office supplies and services.

Some of the sectors that are in the top 10 in terms of investment in contextual advertising turnover, although they do not make it in Top 10 based on their cost per click rate. In particular, although sellers of consumer electronics, tourist services, and cars spend, in total, significant budgets on contextual advertising, they set rather low bids. According to Yandex.Direct, the average cost per visitor rate in these sectors is around 8.5, 7, and 5.5 roubles respectively.
Moscow-based clients tend to spend the most on contextual advertising in Russia. According to Yandex.Direct, approximately 71% of contextual advertising revenue came from Moscow-based clients, while all other Russian-based regions accounted for only 26%. Most of the remaining percentage was made up of CIS-based clients, especially Ukraine, and a fraction of a percentage came from Europe, U.S. and Asia. In comparison, Moscow-based visitors to the Yandex search engine only account for 38% of total visitors (To compare, it’s worth noting that in the daily audience of the Yandex search engine only 38% of visitors and 43% of displays are in Moscow.)

This regional distribution of contextual advertising turnover depends on several factors.

- The proportion of web users in Moscow and their online activity is significantly higher than the corresponding indicators in the regions, which accounts for the readiness of advertisers in the b2c-sector are ready to spend a larger proportion of their advertising budgets on online advertising.

- The paying capacity of Moscow residents is also higher than the paying capacity in the regions, and that is why, even recalculated for one resident, the business turnover in those sectors, which contribute most to the contextual advertising market, is also higher. On the other hand, the competition here is also higher, and that is why Moscow advertisers are ready to pay for the audience's attention a price much higher. The average cost per click in Moscow exceeds that of the regions by 2-2.5 times (see fig.12).

- The head offices of all-Russia commercial networks and of other federal operators are concentrated in Moscow. That is why a part of regional displays are paid for in Moscow.

**Fig.11. Yandex.Direct geographic turnover distribution**

**Fig.12. The average cost per click in Moscow and in the regions**

Reported by Yandex.Direct. Summer 2007
The top three regional leaders on the basis of turnover for contextual advertising are the Northwestern region, the Center (excluding Moscow), and Povolzhie. At less than 19% of total market share, the Far East ranks last among all Russian regions.

The proportion of contextual ad displays in each region corresponds approximately to the search activity of the residents in this region (i.e. to the region’s share in the general search traffic.) This testifies to the uniform distribution of contextual advertisements in search results in all regions, and, also demonstrates the relatively uniform demand for contextual advertisement among advertisers in the regions (tbl. 1).

That said, because of the differences in advertising budgets, the concentration «federal» money in Moscow does lead to disproportionate figures on the regional contribution to general turnover of the Russian. Moscow advertisers bring significantly more money than the regional advertisers. The lag is least pronounced in the Central region, and is most pronounced in the Far East (tbl.2).
Regional distribution of contextual ad displays, in general, corresponds with the general search traffic distribution: the greater part of both is provided by Moscow and Northwestern region (contextual audiences in Ukraine are larger than the audience in some regions of Russia).

Consumer interest for products and services promoted by contextual advertising differs greatly from region to region (in contrast with advertiser interest, which is, as noted above, generally uniform.)

According to Yandex.Direct, residents in Moscow respond to contextual advertisements (make clickthroughs from a contextual ad to advertiser’s website) more often.
than others, with **Siberian residents and Ukrainians** ranking at the bottom in terms of response rate.

According to Yandex.Direct the most popular subjects with the Russian web audience, are offers of temporary or remote jobs, schedules, sports and car advertisements (these services have the maximal CTR\(^1\)).

\(^1\) The *generalized measure of attractiveness of a contextual advertisement is its CTR, the relation between the number of clicks on an ad to the number of its displays, in percentage.*
Appendix 1. Contextual Advertising in Russia: Figures and Facts

As of June 2007, contextual advertisements are being displayed over 140m times a day on weekdays in Russia, and there are over 1.2 - 1.3m user links to advertisers’ websites, according to the Yandex.Direct system.

The size of the contextual advertising market grew by 2-2.5 times in the past couple of years. In previous years, the growth rates were even higher.

Of the $210m overall turnover of the Russian Internet advertising in 2006, the contextual advertising turnover was $110m (by 145% above the indicators of 2005). The same year, for the first time in the history of the Russian Internet, contextual advertising overtook display advertising not only in growth rates, but also in absolute values.

The number of contextual advertising clients, and the number of advertisement campaigns they ordered grew by 60-70%, in 2006.

The number of links from contextual advertisements to advertisers’ websites within the year has grown almost four times (by 280%).

An average monthly budget for a contextual advertising campaign doubled in 2006. To date (May 2007), according to Yandex.Direct, it amounts to around 6,500RUR or $250 USD. Contextual ad budgets of large advertisers approximate hundreds of thousands of roubles a month.

As the Russian market for contextual advertising grows, advertisers are starting to actively explore less competitive advertisement niches and to seek out new segments. In 2006, the volume of search queries bought by the advertisers for displaying contextual advertisements, nearly doubled.

Major customers in the Russian market for contextual advertising are representatives of high-cost client attraction businesses: producers and suppliers of manufactured products (B2B-segment), participants in construction, car dealers, insurance and financial markets. Besides that, a significant portion of the turnover in the market is provided by sellers of consumer electronics, representatives of the business services sector, tourism sector, and real estate sector.

Moscow accounts for the majority of the turnover in the Russian market for contextual advertising: Moscow advertisers and head offices of federal businesses located in Moscow provide over 70% of the advertising turnover. All Russia’s regions together provide only 25%. The remaining 5% is shared among advertisers in CIS states, the former Soviet republics, and foreign countries.

Advertisers in Moscow are ready to pay 2-2.5 times more per visitor than advertisers in the regions.

Customers in Moscow favour contextual advertisement more than customers in the regions, they attend to it, and clicking through from an ad to the advertiser’s website more often.
Appendix 2. Basic Types of Contextual Products

**Search advertisement** — An advertisement unit that is displayed on the pages of search engines in correspondence with certain search queries. This type of advertisement targets the interested audience most precisely and hits directly at the moment when the consumer of information is in the mode of active interest for a given service or product (a user is searching for an answer to a present question, he is open to a variety of answers, and contextual offer from the advertiser is this answer, sometimes the best one for the user.)

**Content advertisement** — An advertisement displayed on the pages of (generally speaking, non-query) websites in correspondence with the general subject of the resource or with the content of the corresponding web pages. In this case, what the advertiser gets is «subject»-defined, but this audience is unavoidably broader than the one provided by the search advertisement. As a result, a part of the engaged audience turns out to be random, and another part is in the mode of passive perception (these users have already found the answers to their questions, and further answers are not relevant for them.) There is however a possibility of active interest on the part of the information consumer.

Search advertisement and content advertisement are different sub-types of advertising communication; they require different sets of key words and different ad texts. However, they are related: in both cases the advertisement unit comes into user’s sight exactly when the user is interested in the corresponding subject.

**Contextual display advertisement** — An advertisement that combines the features of both display and contextual advertisements. On the one hand, just like display advertisement, a contextual display (advertisement) is supposed to solve branding problems, to be oriented toward a broad target audience, to use large-scale banners, to accentuate catchy visual images, etc. On the other hand, like contextual advertisements, contextual display advertisements strive to utilize a pressing need of the customer, and suggests corresponding audience targeting: it creates an association with a search query or with a web page content. At the moment, all major systems of contextual advertising offer a similar product. The size of the contextual display advertisement market has been estimated to 10% of the total contextual advertising market.

**Personal-targeted contextual advertisement** — An advertisement which is displayed not in relation to a web page content, but in relation to a certain group of users defined according to their previous activity or personal information. For example, an advertisement can only be delivered to 25-35 year old males, to young mothers, or only to college students of economics. In general, targeted advertising is a special type of advertising communication that solves different problems from those solved by contextual advertising, and uses other methods of audience engagement. The main feature of targeted advertising is that it gives the advertiser an opportunity to come in contact with the potential customer not only at the moment when they display an active interest. This can be highly effective, for example, for a «long purchase», when a person takes a long time to make a decision about a purchase. A typical example is real estate. There are months, and very often years, between the moment the user first displays interest for this subject and the deal (purchase.) Of course, during this
period the user does not spend all his time searching online (making corresponding queries) or studying the subject matter in the Web. Personal targeting allows to contact consumers like this in other moments of their lives (picked out on the basis of other indirect criteria), and, provides and opportunity to influence their decision. It should be taken into account that, in contrast to search advertisement and content advertisement, which use «technical» methods to target the right customers, personal targeting models audience interest hypothetically, and the degree and the «mode» of this interest are obscure. For example, suppose, a person searches for a bank loan to buy a car, and is browsing the appropriate online resources. Once he has already taken a loan from a bank and buys a car (and at the moment becomes more interested in round-the-world cruises or baby diapers.) Nonetheless he still keeps receiving matching offers from banks.
Appendix 3. Glossary of Key Terms in Contextual Advertising

Basic concepts

CTR (click-through rate) - Relation of the number of clicks on an ad block to the number of its displays expressed in percentage. This is considered to be a conventional measure of attractiveness of an ad or a banner for the target audience this ad (banner) is delivered to.

Time targeting — Ads are delivered only on particular days (day-of-week targeting) or in particular hours (time-of-day targeting.)

Geographic targeting (geo-targeting) — Ads are delivered to users in particular geographic areas (for example, only to residents of Moscow or residents of Northwestern region.)

Click — A «stroke» on an advertisement or a banner. A click is conventionally considered to be the indication of user’s conversion to advertiser’s webpage, however, part of users may get lost «on the way» (may change their mind, leave before the page uploads etc.)

Contextual advertisement — An advertisement that corresponds to the content of the webpage it is displayed on. To date, the Russian market for advertising offers four types of contextual products: search advertising, content advertising, targeted advertising, and contextual display ads. Each of these products is oriented toward different groups of advertisers, and designed for different advertising purposes and strategies.

Behavioral targeting — Ads are shown to those users who recently demonstrated certain interests and/or displayed certain online activity (for example, searched for tourist services or financial news).

Display — Demonstration of an ad or a banner to a user.

Advertising site — A website which hosts advertisements on its pages.

Advertising networks — A group (network) of advertising sites which shares one ad-serving system.

Socio-demographic targeting — Ads are shown to a group of users with corresponding descriptions (for example, only young (20-35), single female users, or only schoolchildren.) This type of targeting is feasible via analysing personal data provided by users in various systems, and also via other analytic environment for behavioural targeting.

Targeting — A mechanism which allows to separate from all available audiences only the part that corresponds to the specified criteria (target audience), and to show ads specifically to them.

Content advertising networks — Advertising networks which consist exclusively, or mainly, of content advertising sites.
Pricing Models and Payment Plans

Pricing a model — Principles and rules for pricing (in this case, contextual advertisement pricing.) Currently, auction pricing is the most popular pricing model in the Russian market for contextual advertising, though in a number of cases (when advertisement is sold by the number of displays) fixed-price model is used.

Auction pricing (auction) — The cost of advertisement is set by the advertiser himself or herself, and the set price affects the position of the advertisement unit. In most contextual ad-serving systems, the best position is reserved for the most relevant ad unit (CTR being the measure of relevance) with the highest cost per click.

Fixed-price pricing model — The cost of advertisement is set by the advertising site (by the website which hosts the ad.) Currently, fixed-price model in contextual advertising is used when payment is «by-number-of-displays».

CPM (cost per mille — cost per thousand of displays). A payment plan, in which the advertiser pays for showing of his or her advertising materials. In this case, the price is per thousand of displays.

CPC (cost per click) — A payment plan, in which the advertiser only pays if a visitor clicks his ad. A click on an ad unit conventionally equals to a visit to the advertiser’s website, though, in reality, the number of clicks may be higher than the number of converted visitors.

CPA (cost per action). A payment plan, in which the advertiser pays for a certain action performed by the user, for example, a phone cal, a filled out form, service subscription, a submitted application etc.

CPS (cost per sale) — A payment plan, in which the advertiser pays only if the visitor, who clicked through from his ad, makes a purchase. This principle is similar to CPA; the difference is that not only the fact of purchase, but also the cost of purchase gets registered (respectively, the pay is based not on a fixed cost of action, but on the percentage of sales.)

1 Share of regional users in the total number of Yandex search users.
2 Share of contextual ads displays in a region in the total number of contextual advertisements displays.