

Critic of Online Ad Firm Blinkx Is Part of the Controversy

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LONDON — A Harvard Business School professor has raised pointed questions in an article about an Internet advertising company, prompting a plunge in its stock price. He himself, though, is now a subject of controversy.

The professor, Benjamin G. Edelman, on Thursday posted an analysis on his personal blog titled “The Darker Side of Blinkx,” about a British online video and advertising company, which among other things said that Blinkx’s user traffic numbers may be misleadingly high.

The shares, about 10 percent of which were held by short-sellers betting the stock would fall, had plunged 31 percent by the time the London trading day ended Thursday. They regained only a small part of that ground on Friday.

Mr. Edelman acknowledged in his report that it was paid for by a client he has not identified.

In a telephone interview Friday, Mr. Edelman declined to say who had paid him for the analysis or how much he had been paid. He said that he did not know whether his client held a stake in Blinkx. A specialist in Internet advertising, Mr. Edelman said he was simply providing his expert assessment of what he called the failings of Blinkx, which operates an Internet portal for video content and charges brands to advertise alongside the videos.

“The work stands on its merits,” Mr. Edelman said. “These are questions that deserve to be answered.”



The questions he raised included ethical ones about products that Blinkx obtained through recent acquisitions of smaller firms. These products allowed Blinkx to download adware — unwanted software that displays pop-up ads and can also spy on users' web habits to show pertinent ads — on users' computers without their clear consent. Mr. Edelman also raised concerns over how the firm had recently increased traffic to its own main video website, questioning whether some of the company's reported traffic was in fact simply users the company steered to itself.

Blinkx, in a short statement on Thursday, categorically denied the accusations and said it disagreed with the report's conclusions. A spokesman on Friday declined to comment further.

Before the Blinkx sell-off on Thursday, several hedge funds had built sizable minority stakes in Blinkx in so-called short positions that would enable them to benefit from a fall in the price, according to statistics from British financial regulators.

A spokeswoman for the Financial Conduct Authority, the main British financial regulator, declined to comment on Friday.

The sudden attention on Blinkx highlights some of the vagaries of the fast-growing digital advertising market and companies' quest for new ways to measure and monetize people's online activities.

Analysts say the tracking technologies are used in ways that few people fully understand and in ways that have made it difficult for advertisers to calculate success.

"It's even a black box for people in the advertising industry," said Daniel Knapp, director of advertising research at the advisory firm IHS in London. "People are working with business models that didn't even exist a couple of years before."

Compared with many of these new ad-tech companies, though, Blinkx is an industry veteran.

The company was founded by Suranga Chandratillake, the former chief technology officer of the British software company Autonomy, which was sold to Hewlett-Packard in 2011 for \$11.1 billion. Mr. Chandratillake is now Blinkx's president and chief strategy officer. Blinkx's video search technology grew out of research at the University of Cambridge, and the firm has offices in both London and San Francisco.

In early 2007, Blinkx raised around \$50 million through an initial public offering in London. Before Thursday's fall, its share price had risen more than 160 percent over the last eight years, and the company reported a threefold increase in its net profit, to \$7.8 million, during the six months through September, according to the latest figures available.

Blinkx has benefited from the rapid rise of advertising spending within online video. In total, global digital advertising spending rose around 15 percent, to \$118.4 billion, last year, according to the research firm eMarketer.

Analysts, however, have raised concerns that online advertising can become susceptible to so-called click fraud — when automated computer programs click on Internet ads to drive traffic.

While Blinkx has said it uses filters to remove such practices from its services, some analysts have called on the company to be more transparent on how it generates income.

"We like the online video arena, but would like to have a clearer view on the network business model at Blinkx," David Reynolds, an analyst at Jefferies International, said recently in a research report.