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Getting the Message: How the Internet is Changing Advertising

by Susan Young

In the six years since the first banner ad appeared on the World Wide Web, advertising has been transformed. With powerful technologies that can track responses and target customers, the Internet offers marketers a new world of opportunities. HBS Professors Alvin J. Silk and John A. Deighton and others offer perspectives, in this article from the *HBS Bulletin*, on advertising in the age of the Web.

In 1994, the World Wide Web was not yet a household name. A new company called Yahoo! had just developed a way to look for sites on the Internet—the search engine. *HotWired* debuted as the first online magazine to carry advertisements. When the site published the first banner ads—colorful, billboard-shaped notices—about 10 percent of those who saw the ads were enticed to click on them. These surfers were taken to the sponsor's Web site, and a new age in advertising had begun.

Today, advertising on the Internet is much more sophisticated—with powerful abilities to deliver state-of-the-art graphics, to target the right audience, and to measure responses instantly. But many experts contend that Internet advertising is still in its infancy. There is a widely held belief that in the future we will compare today's Web ads with the first television ads—where a smiling woman in an attractive outfit walked across the screen carrying a sign that pitched a product. These almost literal translations of billboard and magazine ads did little more than set the previous forms in motion.

Silk: Issues of privacy will come under increased scrutiny

HBS professor emeritus Alvin J. Silk, a marketing expert who has studied advertising for forty years, believes the future of Internet advertising depends on improvements in technology. "We won't really understand the full potential of Internet advertising until broadband service reaches more consumers," asserts Silk. Broadband—a high-speed constant link to the Web that will place today's 56k modem in the history books next to the UNIVAC—promises to transform the advertising industry. Currently only about 1.4 million U.S. households have a high-speed Internet hookup, but that number is expected to double this year and reach 16.6 million within five years. "The creative side, which is what matters in the advertising business, can't be fully explored until the technology has improved," says Silk.

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Judging by the numbers, that technological improvement will open up a whole new world for marketers. In 1997, the first year that marketers began to think of the Web as an advertising medium, U.S. Internet advertisers spent $940 million; a year later, that number had almost doubled, and some put it as high as $4 billion in 1999. Forecasts on what lies ahead are astronomical—as much as $33 billion worldwide by 2004, according to Forrester Research, a consulting firm specializing in e-commerce. Industry observers are shy to predict just what the future of advertising will look like, but they agree that the pace and enormity of changes that have come about in the first phase of online advertising will only accelerate in the future. (See "The Medium's Many Messages" for more on the formats and language of Internet advertising.)

A Total Marketing Environment

Dollar totals for ad purchases, however, tell only part of the story. Martin Sorrell(MBA '68), chief executive of the London-based WPP Group, one of the world's largest advertising and marketing-services firms, describes the $4 billion spent last year as "chicken feed." What he finds interesting about the Web is the impact it is having on the wider area of communication services. Sorrell, whose business leadership earned him knighthood last December, believes that "the real opportunity for the marketing industry lies in developing transactional-based models that enable consumer and client to work together more closely."

HBS professor John A. Deighton agrees, describing the Internet as a multidimensional "total environment for doing marketing." Deighton, who is the coeditor of the *Journal of Interactive Marketing*, heads the required MBA course in marketing and teaches an interactive marketing elective. He explains that traditional marketing tactics might include running a series of television or magazine ads and then posting an in-store display ad to remind potential customers about the product. "With the Internet," says Deighton, "you can seamlessly move the customer from awareness, to temptation, to transaction." Thus, a Web surfer intrigued by an ad for a camera can click on the ad and be taken to a Web site where she can learn more about the product and purchase it. The entire process—from ad to purchase—might take less than five minutes.

In addition to streamlining the flow of information and transactions, Web technology can also help advertisers meet two of the industry's biggest challenges: targeting customers who are likely to be interested in what is being sold and measuring the effectiveness of an ad campaign. Improved technology promises to solve the age-old problem once stated by retailer John Wanamaker: Half of the money spent on advertising is wasted, but no one knows which half.

"On the Web, we can tell you which half isn't working," asserts Barry M. Salzman (MBA'89), president of the international division of New York-based DoubleClick, Inc. In just five years, DoubleClick has become the industry leader in a new business spawned by the Internet—ad serving. The firm sells ad space on the Web sites it represents and has invested heavily in developing technology to deliver targeted ads to these sites, with the simple goal of "making advertising work on the Web."

Doubleclick

"In the old world of advertising," says John Deighton, who just completed a case study on DoubleClick, "somebody created an audience, and then you took advantage of it—you got everyone in a room, and then you ran an ad." Today, through technologies promised by ad serving firms, "you can go to your customers rather than have them come to you," Deighton adds.

DoubleClick's area of expertise involves its ability to package media on the Web to meet the goals of marketers and its employment of technology to facilitate using the Web as an advertising vehicle. In addition to acting as a sales representative for select Web site publishers and advertisers, the company licenses the targeting technology it has developed to Web publishers and advertisers. The power of this technology, which is called DART (for dynamic advertising reporting and targeting), lies in its dynamic capacity to target, deliver, and measure the performance of ads. When surfers are visiting DART-enabled sites, DART tracks 26 criteria—from keywords in searches, to purchases, to time-of-day surfing, to domain name—in order to develop a user profile. DoubleClick then uses this data to match Web users with advertisers.

DoubleClick's Salzman explains it like this: "If you and I went to the same page of the same Web site at the exact same moment, we would likely see different ads—yours relevant to your areas of interest and mine targeted to my areas of interest." Beyond helping advertisers precisely target Web users, the technology is also able to report—in real time—how the ads performed.

"Historically, data provided to advertisers in the offline world was published in monthly or quarterly reports," says Donald J. Law (MBA '96), a former advertising account manager at McCann-Erickson Worldwide. "Now, you can get these reports immediately, so you can actually fine-tune an online campaign in real time." Law is the cofounder of Russell Reynolds Global Internet Practice. He previously served as founder and CEO of an interactive brand marketing consultancy, where he developed patented applications to help corporations build relationships between their brands and their customers in the online marketspace.

The Price Of Privacy

The power of these new technologies and their ability to shadow an individual's online choices and habits are troubling to many observers. The use of technologies such as cookies—programs that unobtrusively keep track of a visitor's previous activities on a site—could make people leery about the entire Internet advertising industry. Many questions were raised recently, for instance, when DoubleClick purchased Abacus, a mailing list data company, and consumers began to feel an Orwellian disease.

Self-regulation within the industry seems to be the answer to the privacy question at this juncture, but Al Silk points out that given that "a series of people have fallen off the wagon," more formal measures will probably be called for soon. "There's really deep suspicion out there," Silk says. "I think issues of privacy are going to come under increased scrutiny. It's a time bomb."

Others are less concerned. "I see privacy as a trade-off," says Lisa R. Klein (MBA'91, DBA '99), an assistant professor of marketing at Rice University, who has written extensively on issues facing new media. "If you don't allow yourself to be tracked and to be personalized, if you turn off the cookies on your machine, then you're not going to have shopping baskets that remember what you bought last week. People can make that choice."

Deighton: The internet allows you to move seamlessly from temptation to transaction.

Deighton goes a step further: "My view is that privacy is not a right, it's an economic asset. It has a market price, and once we realize what it will fetch, some of us will decide to sell it." He uses as examples the fact that few people pay to have their name not listed in the phone book and the popularity of "free" computers—where consumers get a computer in exchange for giving out personal information, agreeing to view ads, or signing up for a certain Internet service provider. "People who went for those deals recognized that they valued a computer more than their privacy," says Deighton.

Still, everyone agrees that there must be some regulation. "Privacy has to be protected," says Russell Reynolds's Law. "If Web users cannot be guaranteed that their confidentiality will be maintained, they will abandon online brands that they've become loyal to and gravitate to sites and brands that are known for guaranteeing privacy."

Brand-building

From the advertisers' point of view, one irony of the Internet age is that the new dot-coms with enormous advertising budgets are currently spending the bulk of their money outside the Internet media market. WPP's Sorrell notes that "in the last twelve months, branding has become more important than ever, because it provides a way to differentiate all the new businesses that are being created. IPOs have raised a lot of money that has been spent on marketing brands through traditional offline media rather than online."

While many observers agree with Deighton, who says that this surge in offline spending is just a "blip," they note that it highlights the importance of creating recognizable brands in today's competitive market. The building of brands has played out in an interesting manner on the Internet. While one of the draws of advertising on the Net is that it provides measurability, the science of building a brand has always been difficult to quantify.

That first *HotWired* banner ad and others that followed in 1994 had a 10 percent click-through rate (CTR)—that is, one out of every ten people who saw the ad clicked on it and were whisked off to the sponsor's Web site. But CTRs have been diminishing ever since and currently hover in the .5 percent range. "The fact that click throughs are falling doesn't mean that people aren't paying attention," says Rice's Lisa Klein. "Just like in traditional media, there is still a good portion of Internet advertising that is not directly traceable. General, brand-type advertising still has its place."

Deighton notes that, at this point, "the Internet is not a particularly engaging medium. It's very accountable, but it really has limited powers to romance the consumer in the way that television can." Others, however, see a future in which new technologies will deliver ads that are even more compelling than today's television spots. Don Law, for instance, believes it won't be long before new technologies delivered over Internet Protocol (IP) networks will provide the ability "to have the full integration of rich broadband advertising content, communication services, and entertainment all on one device."

Structural Evolution

The path to the future that Law envisions will in fact be paved with many of the same advertising structures that have traditionally been integral parts of the ad industry. "In many ways, Internet marketing is actually mimicking the traditional formats and using the technology to go one step further," says Lisa Klein. "We can't talk about Internet advertising anymore as one medium. It's not. We need to think of the different formats as serving different functions in marketing." Thus, John Deighton's total marketing environment provides a very cost-effective way to send a piece of direct mail, to post a billboard to a targeted audience, to provide magazine-style ads with editorial content for specific readers, and—more and more—to stream video and audio. In addition, it can measure results and responses instantly and lead users to purchase points.

Managing in this realm requires a new set of skills. "Advertising executives in the online marketspace must have different analytical competencies than their counterparts in the traditional offline world," says Law, who helps recruit senior e-commerce executives for Russell Reynolds. "Strategic thinking and a real grasp of the creative side have always been important in advertising, but now a new element—understanding the complex technology-related issues—has been added to the mix." Sorrell, of WPP, agrees, noting "Technical know-how is an essential part of building e-commerce models."

The call for technical expertise will no doubt send ripples of change throughout the advertising industry. Already, Deighton notes, people who were not traditionally attracted to advertising—MBAs and technology buffs, for instance—are entering the field. At WPP, in fact, Sorrell has successfully initiated a training program to recruit some of the talented young people who might be inclined to use their skills at an Internet start-up. Having followed the advertising industry for his entire career, Al Silk observes: "We are moving toward a whole new kind of infrastructure. New firms are being created all the time to meet a multitude of needs." While the traditional powerhouses are learning from or buying up these concerns—be they strategy consultancies, measuring firms, or Web publishers, to name a few—it is not yet clear how the two cultures will mix.

Industry observers agree that the first six years of Internet advertising have been full of surprises. DoubleClick's Salzman likes to tell a story that illustrates how difficult it is to predict what will happen next. Two years ago in a meeting about the Internet as a medium for advertising, he told his colleagues that the Web "makes an enormous amount of sense for certain categories of advertisers. But we're never going to be out there selling Internet ads for Pampers." Less then twelve months later, Pampers had become one of the three thousand advertisers who had signed on with DoubleClick. The humbled Salzman had learned a lesson that seems applicable to the entire industry: Never say never.