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Advertising Globally on the Internet: New Paradigm or Old Wine in New Bottle

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Abstract

What is the nature of advertising on the world wide web? Is it the same as it has been throughout the industrial revolution -- using the print medium, then radio, and then television? Or has it changed in a way that is fundamentally different? This paper traces the evolution of global electronic commerce, and advertising approaches that are sprouting at a fast pace. Based on actual examples and some published articles, this paper concludes that internet is truly becoming a catalyst for a paradigm shift in the way advertising of products and services is being done and will be done in the future.

Introduction

Online purchase of products and services through electronic commerce will increase -- from \$518 million in 1996 to \$6.579 billion in the year 2000 (Thompson, 1997); from \$8 billion in 1997 to \$327 billion in the year 2002 (Erwin, et al, 1997); from \$34.97 billion in 1996 to above \$100 billion by the year 2000 (News Release, Zona Research, 1997); and will reach \$176 billion by the year 2001 (Greenfield, 1998.) It is easy to see that in a very short time, Internet has transformed from an information channel to a viable marketing channel. Although internet-based advertising pales in comparison to projected growth in web commerce, the numbers are impressive. Forrester research estimates that \$1.3 billion was spent on web advertising in 1998 and is predicted to reach 1.9 billion in 1999 and \$15 billion in 2003. (Dynal Tweney, 1998).

Like the industrial revolution, the information revolution and more specifically the internet revolution -- which makes electronic commerce possible -- affects consumers in a significant way. While the industrial revolution made a wide array of products available and affordable, the information and internet revolution has tremendously improved quality, service, price and speed of delivery. The World Wide Web provides a platform for a fundamental change in how commerce and advertising will be conducted globally in the future.

Companies trying to catch the internet-based merchandizing can choose a four-stage strategy: advertise, accept orders, deliver products/services, and receive payments. Some companies only advertise on the internet, while others advertise as well as accept orders online, some do all except receiving payments online, while some exploit the full potential of Internet to do all four functions on the internet. This paper provides an appreciation for the present and potential impact of e-commerce on the nature of advertising, approaches to

measuring effectiveness of advertising on the internet, and new schemes for advertisement reimbursements. The paper ends with a table documenting fundamental changes in traditional and internet-based advertising -- suggesting a paradigm shift.

Impact of E-Commerce on the Nature of Advertising

Internet as an advertising medium is very different from magazines, radio, and TV where the written or unwritten rules have been codified over the years. Advertising in the electronic age is going through a metamorphosis to adapt to the new medium. Measurement of impact of internet-based advertising in terms of reach and range and effectiveness remains elusive and poses major challenges. On the internet, web surfers avoid paying subscription fees for information they seek (e.g., NY Times, Wall Street Journal are available for free online), so the money to be made is from advertising and ultimately selling products and services.

Context-Dependent Advertising: CNN and MSNBC have started tying advertisements of the books from the online store of Barnes & Noble to the topic of the news stories and collecting a commission for each book sold from these ads (2). Is this strategy merely exploiting the hyperlinked nature of the WWW by offering readers a new dimension in easy and relevant shopping or is it compromising with the fundamental independence of news reporting thus losing confidence of the readers? It is clear that advertising is becoming more context-based i.e., linked to the thought processes of a reader and a prospective customer.

Journalistic Independence Threatened:

Increasingly contents of editorial and news items determine advertisements as against advertisements being independent (1). Stretching it a little farther, sometimes the contents of the editorial and news items are determined by the sponsors of the underlying advertisements. "Advertising is being woven into the very fabric of the WWW...there is an advertising influence on most of the contents web surfers see," . Examples are Johnson & Johnson baby powder being recommended by BabyCenter.com site, El Cholo restaurant (restaurants are rank ordered based on the size of their internet sites) being recommended by Mexican Restaurants section for the LosAngeles.com site. Traditionally advertising and feature articles or news items have been independent, not so in case of internet

based advertising. Amazon.com has been found to recommend books from publishers who paid for the favor.

Important distinction between traditional and internet-based advertising is that the advertising payments from the latter can be and are increasingly being based on the transactions that ensue from specific hyperlinks (1). With this approach, there is a real danger to the traditional journalistic independence, because of the potential commercial influence. Some sites try to draw a line e.g., CompareNet which offers shopping guides to products ranging from electronics to cars maintains independence and objectivity on "what to buy", but the section on "where to buy" is for sale to advertisers, who bestow financial incentives on CompareNet for the favor.

Phenomenon of Meta-Advertising: There is a tremendous opportunity cost of missing the e-commerce bandwagon. In its year end 1998 survey of 125 traditional retailers, Ernst & Young found that 76% of the respondents were selling on the web or would be soon, up from 36% in 1997 (4). Forrester Research has predicted that the Web, which accounted for less than 1% of retail sales during 1998, will account for 6% in 2003. Most terrestrial merchants want to transform themselves as fast as they can into cyberspace merchants. For example, even though Barnes & Noble was and is the largest physical bookstore chain, they have lost the competition to Amazon.com when it comes to e-commerce. Same thing is true with Toys R Us. Since they missed the e-commerce bandwagon, e-toys have dug in and are all set to beat Toys-R-Us. Tower Records, the No. 2 conventional record retailer missed the boat, and is working hard to improve a site that lags far behind many other music sites like CDNow.com. Internet Profiles, a market research firm in Redwood City, California, reported that a 75% increase in traffic from 1997 to 1998 at the on-line help-wanted sites went mostly to the leaders.

Some companies are desperately trying to get on to this bandwagon with ridiculous amount of traditional advertising. For example (3), Hotjobs.com had revenue of \$4 million during 1998, but in late January 1999 they spent half of that amount in a 30 second ad during the Super Bowl. This was a high stake ad. Did it work? After the game, the site which lists about 17,000 jobs was so overwhelmed that many visitors were unable to enter it. The competitors of Hotjobs.com are Monster.com, Careerosaic.com, and Careerpath.com. What do we call this traditional broadcast advertising? It is advertising for advertising (jobs) on the internet i.e., meta-advertising.

Latecomers have a lot to lose in this age of internet based advertising. Exhibit-1 extracted from New York Times (4) documents number of hits (in million) during the month of December, 1998. Although precise measures of Web business are lacking, these results are based on counting visitors (hits) per month in a sample of 40,000 web users. It can be noticed that Internet upstarts outnumber traditional retailers. Also, latecomers face an

uphill task of catching up e.g., compare Amazon.com with Barneandnoble.com. It must be recognized that these website visits do not necessarily reflect potential sales, since these visitors might eventually buy at real stores or other websites or may not buy at all.

Website Address	# of visitors in millions
Bluemountainarts.com	12.32
Amazon.com	9.13
AOL.com	8.04
Ebay.com	5.49
Barnesandnoble.com	4.69
Etoys.com	3.85
Cnet.com (software)	3.45
Egghead.com	2.93
CDNow.com	2.69
Musicblvd.com	2.69
Columbiahouse.com	2.45
Classifieds2000.com	2.26
Beyond.com	2.17
Coolsavings.com	1.89
Valuepage.com	1.82
123Greetings.com	1.75
Onsale.com	1.49
BMGmusicservice.com	1.48
Messagemates.com	1.42
Spree.com	1.39
Netmarket.com	1.38
Mypoints.com	1.37
Macys.com	1.33
Cdw.com	1.32
Freeshop.com	1.31

Exhibit-1: Website Visits extrapolated to the entire Nation from a sample of 40,000 Web Users during December 1998

Measuring Effectiveness of Internet-based Advertising:

Several new methods to measure the effectiveness of internet-based advertising have emerged - salient ones are described below:

Server Log-Based: Provides extensive information regarding the use of a web site including the type of operating system, type of browser used, number of clicks per visit, site visited from. The server log-based measurements include data about the international as well as domestic traffic as well as traffic generated by American surfers. This data is anonymous giving little information about the demographics of the user.

Surfer-based: Nearly 40% of a web site's traffic originates overseas. Surfer-based measurement avoids measurement of international traffic by utilizing a panel of American users. Surfer-based tracking provides precise demographic information about a site's visitors. Relevant Knowledge uses 10,000 members and their web surfing habits are sent to the company, MediaMetric uses a panel

of 30,000 and their web usage is stored on the user's computer and mailed to the company every month).

Not all advertisers are happy with costs and advertising effectiveness. Some complain about the high Cost-per-thousand (CPM) on websites. A recent Jupiter communications study reports \$12 CPM for TV, compared to \$20 for websites.

REIMBURSEMENT SCHEMES: Many alternative payment schemes are developed for advertising on the websites.

Cost per Thousand (CPM) is a method used for payments to traditional media such as magazines and TV ads. In the web adaptation of CPM, payment to a website is based on number of visitors to the site.

Click-through: The web technology is enabling the advertisers to demand results to their advertising budget. The server logs provide accurate counts of visitors to a site that clicked on the banner ad. Many large advertisers, including Proctor and Gamble with an annual advertising budget of \$3.3 billion are considering payment based on number of visits to their own website generated by the banner ad.

Pay-Per-Lead: Smaller and lesser known companies are demanding even more tangible results from web advertising. Garden State Life Insurance, for example, pays \$10 per lead to its advertisers for generating request for information by filling in forms.

Content-sharing and Web linking: Many innovative and targeted approaches to web advertising are emerging. Advertisers such as book stores and music shops are linking their advertising to search engines. A user's search not only results in other websites but also the appropriate ad by the advertiser with pricing and delivery information.

Pardigm Shift or Old Wine in New Bottle?

An individual's PC-screen is becoming his/her window on the world and the hyperlinked files are weaving a web of information that is simply mind-boggling. Since internet is in its infancy and electronic commerce is exploding, advertisers and publishers are inventing a set of rules that are very different from those in the print or the broadcast medium. Instead of saying that the lines are getting blurred between news and advertising, we can say that we are creating a new paradigm that is neither editorial nor advertising. Shall we call it advertorial? The bookseller or the travel agency does not see itself as merely buying advertising space or link but a partner with the various news and information sites. The publishers are invariably given instant access to data about book titles or travel agencies that are hot on other sites. In this hyperlinked WWW community, there is a real danger of the surfers wandering around from one site to another and not being able to focus on a topic.

The following table attempts to capture the fundamental differences between internet-based advertising and traditional advertising.

Criterion	Traditional Advertising	Internet-based Advertising
Advertising vs. Contents	Advertising driving contents	Contents driving advertising
Use of hyperlinks	No hyperlinks	A network of hyperlinks
Timing of Viewing	View when broadcast or printed	View on demand
Measurability of Effectiveness	No or little information on exposure	Complete information on number of hits
Control over Exposure Time	Exposure time determined by advertiser with the exception of print medium	Exposure time determined by advertisee
Interactive or not?	Advertisement is non-interactive	Can be interactive by including chats with experts
Image -- Upscale or Relevant	Preference for upscale image	Preference for relevant information
Payments vs. Effectiveness	Advertising payments are <u>not</u> tied to actual advertising effectiveness	Advertising payments are increasingly being tied to actual advertising effectiveness
Advertising effectiveness	Based on Sample data	Based on Population data
Focus on Target	Limited Target Advertising	Many ways to promote target advertising

The bedrock principle of Website design is that viewers value speed over visual virtuosity (4). Web retailers like Amazon.com observe the "three click rule" meaning that a shopper can get to the product she wants within three clicks of the mouse. Photographs and elegant colorful images are to be minimized to avoid unnecessary downloading time. Such gulag-style design standards are anathema to retailers who have spent years cultivating upscale images (4). Obviously, there is a need for compromise between appearance and convenience.

References will be provided by the authors on request.