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Why Advertising Is Failing On The Internet

Eric Clemons

Editor's note: Eric Clemons, Professor of Operations and Information Management at The Wharton School of the University of Pennsylvania argues here that the Internet shatters all forms of advertising. "The problem is not the medium, the problem is the message, and the fact that it is not trusted, not wanted, and not needed," he writes. The views he expresses are his own, and we present them here to foster debate.

1. There Must Be Something Other Than Advertising:

The expected drop in internet advertising revenues this year was neither unpredictable nor unpredicted, nor was it caused solely by the general recession and the decline in retail sales. Internet advertising will rapidly lose its value and its impact, for reasons that can easily be understood. Traditional advertising simply cannot be carried over to the internet, replacing full-page ads on the back of The New York Times or 30-second spots on the Super Bowl broadcast with pop-ups, banners, click-throughs on side bars. This might be a subject where considerable disagreement is possible, if indeed, pushed ads were still working in traditional media. Mostly they have failed. One newspaper after another is going out of business across the United States, and the ad revenues of traditional print media, even of highly respected magazines, is declining. The ultimate failure of broadcast media advertising is likewise becoming clear.

Pushing a message at a potential customer when it has not been requested and when the consumer is in the midst of something else on the net, will fail as a major revenue source for most internet sites. This is particularly true when the consumer knows that the sponsor of the ad has paid to have this information, which was verified by no one, thrust at him. The net will find monetization models and these will be different from the advertising models used by mass media, just as the models used by mass media were different from the monetization models of theater and sporting events before them. Indeed, there has to be some way to create websites that do other than provide free access to content, some of it proprietary, some of it licensed, and some of it stolen, and funded by advertising.

The idea that content has a price and net applications should find ways to earn a profit without providing free access to other people's content gets explosive reactions; when virtual reality pioneer and tech guru Jaron Lanier suggested in a New York Times Op Ed that authors deserved to be paid for their content he actually received death threats. But other models are possible and several suggestions for alternative forms of monetization are offered below.

2. Advertising will fail:

The internet is the most liberating of all mass media developed to date. It is participatory, like swapping stories around a campfire or attending a renaissance fair. It is not meant solely to push content, in one direction, to a captive audience, the way movies or traditional network television did. It provides the greatest array of entertainment and information, on any subject, with any degree of formality, on demand. And it is the best and the most trusted source of commercial product information on cost, selection, availability, and suitability, using community content, professional reviews and peer reviews.

My basic premise is that the internet is not replacing advertising but shattering it, and all the king's horses, all the king's men, and all the creative talent of Madison Avenue cannot put it together again. To analyze this statement we need a working definition of advertising, and I proposed the following, which is as general as I could make it:

Advertising is using sponsored commercial messages to build a brand and paying to locate these messages where they will be observed by potential customers performing other activities; these messages describe a product or service, its price or fundamental attributes, where it can be found, its explicit advantages, or the implicit benefits from its use.

It is frequently argued that the advertising industry will provide sufficient innovation to replace the loss of traditional ads on traditional mass media. Again, my basic premise rejects this, suggesting that simple commercial messages, pushed through whatever medium, in order to reach a potential customer who is in the middle of doing something else, will fail. It's not that we no longer need information to initiate or to complete a transaction; rather, we will no longer need advertising to obtain that information. We will see the information we want, when we want it, from sources that we trust more than paid advertising. We will find out what we need to know, when we want to make a commercial transaction of any kind. The conventional wisdom is that this is exactly what paid search helps us to do, but all too often they are nothing more than a form of misdirection, as I explain further below. Instead, we will use information that we trust, obtained at the time that we want to see it.

Better targeting of ads using individual interests and individual behaviors will ensure that we do not bore or annoy as many people with each ad, but cannot address the trust issue. As for paid search, it is closer to other mechanisms that allow a website to *sell access to potential customers*. It works effectively as a revenue source for Google, of course. But it surely is not replicable for the average content website.

3. Advertising will fail for three reasons:

There are three problems with advertising in any form, whether broadcast or online:

- **Consumers do not trust advertising.** Dan Ariely has demonstrated that messages attributed to a commercial source have much lower credibility and much lower impact on the perception of product quality than the same message attributed to a rating service. Forrester Research has completed studies that show that advertising and company sponsored blogs are the least-trusted source of information on products and services, while recommendations from friends and online reviews from customers are the highest.
- **Consumers do not want to view advertising.** Think of watching network TV news and remember that the commercials on all the major networks are as closely synchronized as possible. Why? If network executives believed we all wanted to see the ads they would be staggered, so that users could channel surf to view the ads; ads are synchronized so that users cannot channel surf to avoid the ads.
- And mostly **consumers do not need advertising.** My own research suggests that consumers behave as if they get much of their information about product offerings from the internet, through independent professional rating sites like dpreview.com or community content rating services like Ratebeer.com or TripAdvisor

Yes, both network executives and their ad agencies have noted that we are not watching traditional ads, and they attribute this to the fact that we have moved beyond newspapers, televised network news, and broadcast movies, to video games, iPods, and the internet. Porting ads to a new medium will not solve the

three problems noted above. The problem is not the medium, the problem is the message, and the fact that it is not trusted, not wanted, and not needed.

4. Alternative models for monetization are available:

Again, my research suggests that there are three general categories for creating value that can be monetized, including selling real things, selling virtual things, and selling access. Some websites exist solely to sell *real* things. Many of the best-known perform aggregation of demand, so that there will be enough customers to justify stocking and selling items for which there is only limited demand. Amazon is merely the best-known example. Sites like Amazon and Zappos are especially good for long tail items ... where else do you go for a copy of the Green Sea of Heaven, Elizabeth T. Gray's magnificent translation of the Ghazals of Hafiz, or for a pair of size 20 basketball shoes? Selling real things online has been studied since the advent of interest in eCommerce and will not be discussed further here. Other websites sell *virtual* things. These activities fall into three categories:

- ***Selling content and information***, from digital music to news and information. Some of these sites are funded by subscriptions, like Gartner Research; some are by direct micropayments for purchases, like iTunes; and some currently attempt to fund themselves through advertising, like *Business Week* or *The New York Times*, while still searching for a more effective business model.
- ***Selling experience and participation in a virtual community***, including Second Life and World of Warcraft, Facebook and MySpace, Flickr and YouTube, or LinkedIn. Not all of these have found a way to charge for participation.
- ***Selling accessories for virtual communities***, like completed homes and stores, furnishings, clothing, and pets in Second Life or characters and

accessories that would be difficult to earn in World of Warcraft, although this behavior is generally despised by serious World of Warcraft players.

Finally, some websites create and sell *access* to customers. Again, this can be divided into multiple categories.

- ***Misdirection***, or sending customers to web locations other than the ones for which they are searching. This is Google's business model. Monetization of misdirection frequently takes the form of charging companies for keywords and threatening to divert their customers to a competitor if they fail to pay adequately for keywords that the customer is likely to use in searches for the companies' products; that is, misdirection works best when it is threatened rather than actually imposed, and when companies actually do pay the fees demanded for their keywords. Misdirection most frequently takes the form of diverting customers to companies that they do not wish to find, simply because the customer's preferred company underbid. Misdirection also includes misinformation, such as telling a customer that a hotel is sold out when, indeed it is still available, if the hotel has chosen not to pay a promotional fee, and then allowing the guest to choose an alternative property. Misdirection is, regrettably, still a popular business model on the net, although for reasons I explored in an earlier TechCrunch post on Google it seems ultimately to be unsustainable. More significantly from the perspective of this post, it is not scalable; it is not possible for every website to earn its revenue from sponsored search and ultimately at least some of them will need to find an alternative revenue model.
- ***Evaluation, assessment, and validation***. The opposite of sending a customer someplace other than where he wants is providing the customer enough information for him to make an informed choice on his own. Recommendations on TripAdvisor.com allow potential guests to evaluate and validate recommendations provided by Hotels.com; not surprisingly, Hotels.com originally owned TripAdvisor, and benefited greatly from it. Since Hotels.com did not attempt to influence or censor TripAdvisor content the website was (and is) trusted and helped put recommendations from Hotels.com at a level of trust comparable to those from an experienced travel

agent. There are at present only a few other examples of website symbiosis like this, where community content on one site adds considerable value for another; consider also the relationship between the Beeryard's list of new beers and Ratebeer.com, where clicking on the name of a newly arrived beer at the Beeryard will allow you to examine reviews on Ratebeer.com.

- ***Social search.*** Social search is a way of tailoring search based on the user's network of friends. Rather than searching for any hotel in Chicago, or for any hotel that paid for the keywords "hotel" and "Chicago" I would like to be able to ask for the hotel where my friends stay when they are in Chicago. This invades no one's privacy, avoids the annoyance of pushing ads at me when I am not searching for something to buy, and provides more relevant results than paid search usually can deliver. There are many problems with this, including the fact that my friends may not be on Facebook or other networks yet and those that are may not post their hotel or automobile or restaurant preferences. Most seriously, while it is clear how Microsoft might benefit from this, using its Facebook connection to undercut Google sponsored search, it is not clear how Microsoft or any other firm could monetize this directly.
- ***Contextual mobile ads.*** At present contextual mobile ads delivered by SMS appear to offer much promise. Imagine a hypothetical all-knowing information-based firm that (i) knows your location because you have registered to have the information from your in-phone GPS shared with your friends and (ii) knows that you like Thai restaurants because it monitors the content of your email and your online restaurant searches and (iii) knows that you are hungry because you just said so in a text message or Twitter post you sent from your phone. What a great time for them to text you an advertisement for a nearby Thai restaurant, sent directly to your phone. But why would you trust this? I remember when Hotels.com used to refer me to the same hotel, albeit at different prices, when I asked for a two-star or three-star hotel close to my office; I was never sure which was more amusing, the 80% price increase for the same hotel when I was willing to splurge on a three-star for my visitor, or the fact that there were comparable hotels 20 blocks closer to my office. I suspect that my hypothetical all-knowing firm will similarly be providing sponsored content; perhaps I will

take a couple of additional seconds in order to find the restaurant I really want. This probably does not work as a form of advertising.

Of course no one knows yet, but if I had to guess, based on my *meatspace* experience, I would offer the following guesses for successfully monetizing the net in the future:

- ***Selling Virtual Things:*** People will pay for superior, timely, original **content** and for superior **online experiences**. Presently I willingly pay for the *Financial Times*, *The Economist*, and *Foreign Affairs*, I value the content, and, indeed, I feel I need it; I will continue to pay for them online. Perhaps I would not be willing to pay for archive material, which I expect that I would be able to find elsewhere, but I will cheerfully pay for the newest content online. Similarly, I willingly pay the cover charge for my favorite jazz clubs in New York, and expect that I would cheerfully pay to participate in Second Life or World of Warcraft if, indeed, I had any interest in those virtual experiences. I guess, ultimately, if we compete for status through our purchases of accessories, clothes and homes in *meatspace* we will probably continue to purchase *virtual accessories* in Second Life, though I can't say I fully understand this yet.
- ***Selling Access.*** Misdirection will fail totally and completely. I use a Mac, but I have abandoned Safari for Firefox. I have an iPhone and an iPod but I have never used the little white earbuds, preferring instead to purchase a pair of Shure E500 phones that I think sound vastly superior. Similarly, I would be equally happy to purchase a search service that worked for me, rather than accept a free one that works both against me and against the firms I patronize. In contrast, while people will continue to value **community content** and **social search**, these will be difficult to monetize. Finally, **contextual mobile ads** will, likewise be difficult to monetize. With information easily available, I will make my own restaurant choices, irrespective of those pushed at me via SMS, especially when I know that those pushed at me have been pushed for a fee, rather than based on an impartial assessment of my preferences. Yes, I can imagine SMS ads initially succeeding if they provide discounts, but ultimately this leads to

little more than a bidding war for traffic and benefits no one other than the firm that provides the text messaging services. I can think of a few commercial SMS services that will benefit everyone, such as letting the most loyal guests of a restaurant know when it is still possible to get a reservation if they act immediately, eliminating the inefficiency of empty tables, but the restaurant will do this itself, using its email or cell phone contact lists. I don't see this as advertising, or as being monetized by any intermediary. Of course, in an age before texting and email restaurants would have welcomed the all-knowing intermediary as the only mechanism available for communicating quickly with its most loyal customers. Now, restaurants have lists of their most loyal customers and can send out real time messages of interest. If the Blue Note were to text me on some night that I am in New York that it is still possible to get a table for two for Clark Terry, or Tria were to text me on a day when I was in Philadelphia that, surprisingly, there was no wait for an outdoor table right now, I'm sure I would respond to both. Of course there is no intermediary for this interaction, and this is more like direct communication than paid advertising.

The internet is about freedom, and I suspect that a truly free population will not be held captive and forced to watch ads. We always knew that freedom comes at a price; perhaps the price of internet freedom and the failure of ads will be paying a fair price for the content and the experience and the recommendations that we value.

(Photo by nickfern).

Update: Response to comments

OK, guys. It's time to calm down. I did not insult you, your families, your religions, or your rottweilers.

I may have presented a message you did not want to hear. Let me summarize it again, for those of you who appear to have commented on it without reading it:

□ Online advertising cannot deliver all that is asked of it. It is going to be smaller, not larger, than it is today. It cannot support all the applications and all the content we want on the internet.

□ And don't worry. There are other things that can be done that will work well.

If you disagree with me, it would be helpful to think about the basic premises of the article and to refute them:

- ***People don't trust ads.*** There is a vast literature to support this. Is it all wrong?
- ***People don't want ads.*** Again, there is a vast literature to support this. Think about your own behavior, you own channel surfing and fast forwarding and the timing of when you leave the TV to get a snack. Is it during the content or the commercials?
- ***People don't need ads.*** There is a vast amount of trusted content on the net. Again, there is literature on this. But think about how you form your opinion of a product, from online ads or online reviews?
- ***There is no shortage of places to put ads.*** Competition among them will be brutal. Prices will be driven lower and lower, for everyone but Google.

Or you can continue to laugh, or to attack. That does not constitute a response, and it does not help you plan for the future. But a few parting thoughts may help you construct stronger attacks.

- People whose experience is different from yours may still have experience. People whose industry contacts are different from yours may still have industry contacts.
- I've been attacked and ridiculed before. I warned the floor traders in New York about the coming of online trading back in 1989 and was fired for it. I warned traditional people-based travel agents about dropping commissions and their eventual bypass through online booking systems and was ridiculed. I warned early investors in online grocery that it would not truly succeed as a mass-market offering for at least a decade and was ridiculed again. I warned investors in specific early online business-to-business exchanges, like Covisint, that sellers would not participate. All of these ridiculed me more politely. But most of them still cannot afford to buy me dinner now.
- And even if you continue ridicule my piece, there are too many other professionals noticing the same thing. Consider the recent article in the Economist on essentially the same thing: advertising cannot fully support the net. You cannot ridicule everything you do not like off the net.

So ... those of you with commercial interests in online advertising ... you can laugh at me. You can attack me. Or you can think about how you can protect yourselves and your companies against the changes that are going to come.