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Internet Marketing: Advertising as Information

Gary Wilcox

*John A. Beck Centennial Professor of Communication
Department of Advertising
University of Texas at Austin*

At the beginning of this century, a new advertising industry came of age in the United States. Now, at the turn of the twenty-first century, new global media and audiences are reshaping this industry and the advertising we see. The next frontier is worldwide, and the new media are as open-ended as cyberspace.

Today more and more advertisers are combining brand/image, direct response, and interactive principles to give the consumer a credible reason to like and believe in the product. The "new advertising" seeks to make a direct connection, and many advertisers and marketers view the Internet as the best means to that end. Supporting this assumption is research that estimates the Internet will capture 50 million users in five years. (It took television thirteen years and radio 38 years to reach this level of market penetration.)

The tremendous growth of the Internet as an advertising medium has been widely documented in a variety of published articles and reports. Although advertisers still invest more than 45 percent of their media budget in newspaper and television, the Internet Advertising Bureau (IAB) estimates that more than \$900 million was spent on Internet advertising in 1997 and projects that the end-of-year figures for 1998 will show an expenditure of at least \$2 billion. Business Week predicts that ad spending on the Internet will be close to \$8 billion by 2002.¹

One important reason why revenue is increasing at such a rapid rate is that many of the more established and popular Web sites are charging more for their ads. In general, advertisers pay for their ads on a "cost per thousand" (CPM) basis, i.e., advertisers pay a fee for every thousand times their ad is viewed. CPM rates for television range from \$5 to \$6 per thousand. Compare this to Web site charges: the average cost for banner ads is \$17, but more popular sites can charge a premium of \$20 to \$22 per thousand for access to their visitors. Advertisers pay more for Internet ads because these sites can deliver a more targeted audience.

Advertising as Information

As early as the 1940s, economists and consumers noted that advertising occupied an important informational role in the marketplace. Because products are available in such wide varieties, new products are offered in such great numbers, and existing products must be targeted to new consumers, this informational role proved pivotal in the development of the U.S. economy. George Stigler concisely summarized the informational role of advertising when he noted "information is a valuable resource" and that advertising is "the obvious method of identifying buyers and sellers," which "drastically reduces the cost of search." This market perspective became known as "Advertising as Information."²

Historically, the acquisition of consumer information has been critical to advertisers. Dominating mass media channels in the late 1960s and early 1970s with their media messages, advertisers helped create demand for their products through a fragmented distribution channel. In addition to profits, they also amassed information about the consumers' purchasing behavior.

By the late 1980s, the marketplace power shifted from large mass media advertisers to a consolidated network of retail chains. Information about buying behavior became the property of the retail outlets through technological advances such as the UPC product scanners and networked distribution centers. In a consolidating industry, retailers and mass merchandisers controlled a larger portion of sales and possessed the most accurate information about the consumer. By collecting precise data about specific products being purchased and profits generated by product categories, retailers exercised a great amount of control of information. This control, in turn, translated to substantial influence in the marketplace.

Enter the Internet

Much of what Stigler and other economists asserted about the informational role of advertising is even more relevant today with Internet advertising. The access to greater amounts of dynamic information as a resource for both the consumer and the advertiser represents the fundamental advantage of Internet advertising.

From the advertisers' point of view, it is information about the consumer that cannot be obtained from traditional media. On the Internet, consumers are not a captured audience. Unlike a television or magazine ads, the consumer can easily compare information about competing products with a click or two of their mouse. At the same time the consumers are searching for information, the advertisers are recording their actions for future use.

The "Cookie" Connection

Just how do advertisers use new technology to collect all this consumer information? The answer lies in the interactive nature of the Internet: the potential for consumer interaction facilitates a one-to-one relationship between consumers and advertisers to a greater degree than ever before possible with traditional media. By using the interactive component of the Internet, advertisers entice the consumer into a new relationship that occurs at both parties' convenience. New possibilities exist to adapt communications precisely, allowing individual consumers to request the amount of information desired.

Much of this information retrieval is accomplished through a technology called "cookies." A cookie is information about an individual's browser. This information—for example, what ads were viewed or what pieces of information were sought—is stored on the user's Web browser and provides an identity that can be accessed on a return visit. During the next visit to the same Web site, the server reads the cookie and gathers more information that can then be shared with the advertisers. In this way, the manufacturer gathers relevant information from consumers for the purpose of targeting salient product information more effectively in the future. The objective of such continuous relationship building is to give consumers information about the manufacturer and its products as well as to receive information from consumers about their likes and dislikes.

From the consumers' point of view, the Internet provides access to a vast amount of product information. As important is the fact that the Internet is an environment in which consumers are actively engaged in the process of seeking information. One survey of Web users found that gathering purchase-related information was the most preferred Web activity.³ Moreover, the interactive nature of the Internet allows for searches initiated and controlled by the consumer. Therefore, advertising on the Internet is more consumer-driven than that provided by traditional media.

Conclusion

As noted, the control of consumer information has been a valuable commodity in the marketplace and therefore a source of power. In the last thirty years, this power has shifted from the advertiser to the retailer. With the rise of the Internet, it is increasingly evident that the power of information is shifting again, from

the retailer to the consumer and the advertiser.

The consumer has greater-than-ever access to credible information. With the increased availability of better and more useful information, consumers not only can now become more informed about their purchases, they can also have a stronger say in the final decision about what products are offered in the marketplace. A better informed consumer will be able to assume a more powerful position in the distribution channel.

Likewise, the advertiser now has the ability to interact with the consumer and craft messages based on actual consumer response. The insight provided by this interactivity will provide new communication opportunities for advertisers never before realized. With the new technology, the old phrase, "advertising as information," holds truer than ever.

Notes

1. "[Web Ads Start to Click](#)," *Business Week*, 1997.
2. Stigler, George J., "The Economics of Information," *Journal of Political Economy*, June 1961, pp. 213, 216, 220.
3. Gupta, Sunil, "[HERMES: A Research Project on the Commercial Uses of the World Wide Web](#)," 1995.



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