THE HISTORY AND CURRENT STATE OF ONLINE ADVERTISING

RED TEAM:
Meghan Collins
Catherine Enders
Ernesto Soto
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Online ads were the new frontier of the advertising industry about 10 years ago. Over the last decade, the industry evolved and expanded creatively, introducing new types of Web advertisements, and companies devoted more money in business plans to online exposure. While Web ads were the first real source of revenue on the Web, a look at their development and value exchange, significance to Web sites, impact on the industry, interactive value and performance will demonstrate that advertising on the Web continues to change and grow in a fight to hold the top spot for the future.

Development and Value Exchange

Internet advertising began in 1994, when the first banner advertisement was sold by Hotwired.com (now wired.com). The transaction occurred in conjunction with the release of Netscape Navigator 1.0.

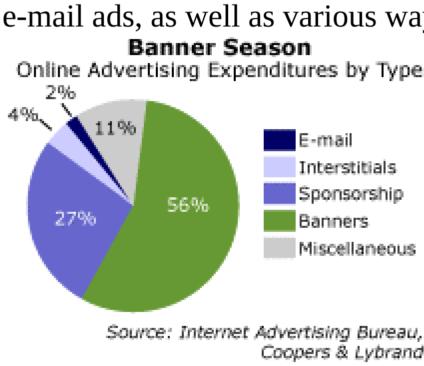
In the beginning, when Web sites were not very sophisticated, advertisers wondered if they were going to do more harm than good by placing ads on the Web.

But, banner ads became the staple. Banners first appeared at the top of the page because that is where advertisers thought they could get the most visibility and, therefore, the most for their money. The top of the page loads first, so regardless of whether a user waited for the entire page to load or not, they would see the ad.

How a banner ad gets called up on a user's screen (from *The Wall Street Journal*)**:**

1. The user enters a Web address or clicks on a hyperlink.
2. The user's browser sends a request to the Web site, which then establishes a connection between the user and a third-party ad server, where the banner ads are stored.
3. The ad server identifies the user by scanning "cookie" files on the user's hard drive and then matching the files with an existing user profile.
4. The ad server selects an appropriate banner based on set of targeting criteria including geographic location, previous surfing behavior, income, age and gender.
5. The ad server sends the banner to the user's browser.

Over time, several types of ads have developed, including skyscraper boxes, sponsorships, pop-ups and e-mail ads, as well as various ways to measure their success.



According to the Internet Advertising Bureau, revenue coming from online ads in the third quarter of 2000 can be broken down as follows: banners, 46 percent; sponsorships, 28 percent; classifieds, 9 percent; referrals, 6 percent; interstitials 4 percent; e-mail, 2 percent; rich media, 2 percent; keyword searches, 2 percent; and “other”, 2 percent.

A LOOK AT DIFFERENT TYPES OF WEB ADVERTISING:				
TYPE OF AD	**DESCRIPTION**	**PRO**	**CON**	**PRICE**
Basic Banner	Rectangular strip that runs horizontally across the top of a Web page; some animation. Click-through down to .5 percent.	Direct marketing tool. Brand building tool.	Busy; aggressive	Banner ads range from $5 to $50 for every 1,000 ad impressions that appear on the site, depending on how targeted the ad and the site where it appears.
Skyscrapers	Tall, skinny banner ads. Fast company sells them as tall as 800 pixels.	Takes up more space than banner ads. Not as intrusive.	May not be seen. Harder to read text.	
Bulky Boxes	New shape. News stories can wrap around.	Can’t ignore.	Seen.	
Pop Up Ads	Second browser window that opens while the Web age downloads.	Bigger, intrusive, memorable, seen, entertaining, visible, branding, you actively have to ignore/close. “Rich media” with audio, video and animation. Boast a 6%	Annoying, intrusive.	Rich-media ads that appear in pop-up windows run between $40 and $50 per 1,000 ads that appear, depending on the quality and demographic of the site's audience.

		click-through rate compared with .5% for banners, according to Unicast Communications.		
E-mail	Advertising in an e-mail	Highly targeted audience. Response rates of 5% to 15%. Cheap, retaining customers with a fast respond rate.	“Cluttered” inbox. The average number of e-mail messages from marketers per person in a year is expected to rise 40-fold to 1,612 in 2005, from 40 in 1999.	$7.3 billion by 2005. $164 million in 1999. It costs about $1,000 for a three-week campaign compared with $20,000 for three months direct mail campaign. $15 to $25 per 1,000 e-mail addresses targeted
Sponsorships	Sole advertising on a site or channel.	Branding. Targeted audience.	Might be ignored. Skepticism about objectivity of information. Lacks interactivity.	Verizon paid the Lifestyle channel of BET.com $3 million to sponsor and be the only telecommunications advertiser. A sponsorship per 1,000 viewers ranges from $30 to $75.
***SOURCE: *THE WALL STREET JOURNAL* 04.23.01**				

ADVERTISING AVERAGE PRICES PER MEDIA

Local TV: A 30-second television commercial on a local station in a top 10 market ranges from $4,000, generally during a movie, to $45,000 for time on one of the highest-rated shows.

Network TV: A 30-second spot in prime time ranges from $80,000 to $600,000, depending on how high a show is rated and the show's genre. The average is $120,000 to $140,000.

Cable TV: A 30-second spot in prime time runs between $5,000 and $8,000, depending on the network.

Radio: Commercials range from $200 to $1,000 for a 60-second spot, depending on criteria such as the time of day and the program's ratings.

Newspapers: A full-page ad in the top 10 markets runs an estimated $120 per 1,000 circulation.

Magazines: Ads in regional editions of national magazines cost an average of about $50 per 1,000 circulation. The average cost of an ad in a local magazine is about $120 per 1,000 circulation.

Direct mail: The most common forms of direct mail include packages of coupons in letter-sized envelopes, which cost $15 to $20 per 1,000 delivered, and single-sheet newspaper inserts like fliers, which cost between $25 and $40 per 1,000 circulation.

Billboards: To place several short-term ads for one to three months on those 14x48 signs along the freeway ranges from $5,000 to $25,000 in top 10 markets.

Banner ads: Banner ads range from $5 to $50 for every 1,000 ad impressions that appear on the site, depending on how targeted the ad and the site where it appears.

Rich media: Rich-media ads that appear in pop-up windows run between $40 and $50 per 1,000 ads that appear, depending on the quality and demographic of the site's audience.

E-mail newsletters: Content sponsored by an advertiser in a newsletter format ranges from $15 to $25 per 1,000 e-mail addresses targeted, depending on the cost to create and develop the e-mail. An e-mail in the form of an advertisement ranges from $100 to $300 per 1,000 e-mail addresses targeted, depending on the quality and demographic of the list of addresses.

Sponsorships: A sponsorship per 1,000 viewers ranges from $30 to $75, depending on the exclusivity of the sponsorship. (The more exclusive, the higher the cost.)

Recently, the decline in banner revenue has led to the development of more aggressive and intrusive ads (see chart above). Interstitials are the latest attempt – and it seems to be working. A second browser window appears while a Web page loads requiring the viewer to close the window of the advertisement. It’s the fastest growing and most promising form of rich media ads, analysts say. When users sign onto American

Online, more and more frequently they have to click through an advertisement before the program loads.

These interstitial advertisements have the closest resemblance to television on the Web. Unlike banners, advertisers can devise elaborate presentations that look like stripped down TV commercials. Internet users essentially become “viewers” if only briefly. They can run anywhere from five to 30 sections and include audio, animations, and sometimes rudimentary video. The idea is to bring the effectiveness of TV commercials to the Internet. Commonly the click-through rates are many times higher than those of banner ads, according to Adsguide.com.

“An interstitial might interrupt the flow of a piece of content, as a commercial interrupts a TV drama, [but] most people are used to them by now and tolerate them,” new media consultant Steve Outing said recently in his *Editor & Publisher Online* weekly column.

Just as they types of ads have evolved, so have the methods for measuring their success. The effect of online ads can be measured by various means based on the Web site’s traffic, including number of visitors, stickiness, impressions and click-throughs to the advertiser’s site. Early Web ads sales people oversold the transaction capabilities of the Web by promising complete tractability. Web ads are potentially the most trackable type of ads -- it’s just a problem of finding an accurate and universal way to do so.

“To some extent, the great strength of online advertising—the ability to accurately measure return on investment—is also a weakness, since traditional media are not held to the same levels of accountability,” Marc Miller, Engage Asia’s general manager for South Asia and Singapore, told ZD Net News.

The most basic transaction is to charge a fee based on the number of “impressions,” or page views, that the site gets. In its most basic form, a Web site needs to produce a high-level of page views for the advertiser to benefit. The less traffic that comes to the page with their ad on it, the less the company will want to advertise on their site or will pay to have their advertisement on the site. While advertising is strongly correlated with site traffic, more traffic does not necessarily translate into higher revenues. In fact, the average weekly growth rate of ad impressions sold is 1.7 percent, while traffic has grown faster at an average weekly rate of 3.2 percent.

At the highest level, the Web site would provide the exact customer that the advertiser is looking for, drive that person to the advertiser’s site where they would make a purchase and keep them coming back for more.

Sometimes, however, advertisers just place ads for branding purposes. But there is much debate today about the effectiveness of branding on the Web and whether it works as well as active click-throughs to an advertiser’s site -- allowing the user to actively purchase. And there is no way to measure branding.

In addition to monitoring traffic, which tells an advertiser if it’s worth it to place ads on a certain site, another way that sites can provide value to advertisers is by analyzing its users. Tracking is key to Internet advertising, because it allows advertisers to target certain consumers, based on information collected by “cookies” dropped on the user’s computer. These cookies allow companies to personalize Web site for users and to gather information like name, age, other sites the user frequents, etc. But, tracking methods still haven’t been mastered – there are ways to manipulated numbers although the Internet Advertising Bureau is working to develop better standards. Companies such as Media

Metrix and NetGravity are the only way to measure success at this point – and it is difficult to distinguish the way a user ends up at a certain site.

A few Web sites are now experimenting with "wallpaper" ads, where a logo is placed behind editorial content of a page, lightly screened. These ads do not enable the user to click through.

Significance to Web sites

Ads are the leading source of revenue for Web sites and, while the revenue has declined in recent months it is still up from comparative quarters in years before.

Revenue has declined because of the slowing of the economy and the dot-com "bust," including the collapse of many Web companies and layoffs/cut backs at others.

Many advertisers don't like the Web because they don't understand it and cannot get solid information on who their ads are reaching. The two main reasons for advertising on the Web fall into two advertising categories. The first are branding ads, which indirectly lead to transactions. The second is transactional advertising, which directly puts purchasing power in the hands of the user, because the person can click on the ad to buy something immediately.

Click-through ads enable direct response and can be used to provide marketing info to the advertiser. Web ad banners build brand awareness and might be better than television or print advertising, according to the Internet Advertising Bureau.

Some advertisers originally thought banner ads were to small to cause branding even though there was no research to prove this. In 1996, Millward Brown International studied the impact of banner ads on brand awareness. They found that exposure to the ads increased brand awareness from 12 percent to 200 percent. They also compared banner ads to TV and magazine ads and found that single exposure to a banner ad generated greater awareness than a single exposure to a TV or print ad, according to the Internet Advertising Bureau.

"The World Wide Web will become one of the strongest brand building tools available," said Lynn Upshaw, author of Building Brand Identity.

Consulting firm Booz-Allen & Hamilton, however, recently reported that banner ads don't work and that companies should stick to sponsorships. But ads have never really made enough money to support a site anyway. They say people have been trained or trained themselves not to look at the ads anymore.

"The quest for quotable industry averages on the Internet is a more desperate pursuit than it is for most other businesses. The Web is a medium in which media, sales channels and corporate communications converge in ways we've never seen before. And for those who have been in the marketing and advertising industry since before the dawn of the Internet, the years and decades of training and experience suddenly look as though they're at risk of becoming irrelevant," Jim Meskauskas, chief Internet strategist at Mediasmith Inc., a San Francisco-based interactive media agency, told *Digitrends.net*.

Rules-of-thumb and standard average reaches and frequencies no longer apply, he said.

Comparing Click-through rates, CPMs and CPAs (by Jim Meskauskas)

Click-Through Rates

By far the most ubiquitous and talked about metric on the Web, the click-through rate, has reigned supreme since the beginning. When the early adopters in the advertising community first fell upon the Web, they realized its potential as possibly the most powerful advertising medium yet. There was a promise for accountability that the marketing world had never seen. And not only was there accountability, but we could get data almost instantly,

However, the fire of enthusiasm was being stoked by the potential of the Web and not its extant reality. So this nascent industry settled upon an easy-to-grasp and ready-to-hand metric to demonstrate the power of the Web and sell the idea of the medium to advertisers. This metric was the click-through-rate.

CTRs have been steadily declining since the very first click (I'm guessing the very first CTR was 100 percent). And they really aren't a good indicator of whether or not there was any real, effectual impact of a given ad campaign. But the CTR still has some currency in the industry, and continues to be of particular interest to the industry press. I get calls with semi-regularity from freelancers asking what the latest industry average is for CTRs. So, here's what I tell them.

The current industry average click-through rate, as reported by AdKnowledge, is about .51 percent (www.engage.com/adknowledge).

CPMs (Cost Per Thousand)

This is probably the most imprecise industry average out there. If it comes from an "official" source, that source only has at its disposal publicly available information by which to come to any conclusion. So that means one has to use an aggregate of rate cards in order to get a number here.

To quote AdKnowledge's Third Quarter 2000 Online Advertising Report, the average CPM is $33.64. But is that really true? I bet if you asked the top 10 or 20
agencies regularly committing online ad buys, you'd get a number more like half that, or around $15.

CPA (Cost Per Acquisition)

This is the one everyone really wants. How much does it cost me on the Web to acquire a new customer? Whether I am publisher, a retailer, or a service, hard goals and bottom line are most materially affected by this figure.

The average cost per acquisition on the Web varies widely from category to category, as does the tolerance for these costs. For selling cars or financial services, costs per acquisition can be much higher than for selling books and CDs. For financial services, some sources report $200 to $250 CPAs, whereas for books and CDs it's more like $60. But this is not specific to any one advertiser.

Industry impact

Ads obviously affect the content and visual presentation on the site and many aspects of the Internet and journalism communities. Sites distribute ads in different manners, and the site design is affected differently based on whether there is a big banner across the top, a pop-up ad, or a small ad in the lower right-hand corner. In addition, publications with online and print versions now must complete against themselves for ad funds.

As a result of online advertising, editorial sites have had to make some big decisions regarding their business models. The way a Web site's share of the revenue is linked to a parent company depends in each case, but online pricing strategy has to be consistent with the company's strategy. And rules can vary dramatically from one company to other.

Most Web sites still use the sales force of the parent company, while some others are developing their own sales forces. In many cases, the parent companies will continue to support the Web site for the years to come. For many companies, the Web presence is considered now a public relations expenditure and a source for promotion of their traditional products, and not a business unit by itself.

New types of companies have also "popped-up" as a result of Web ads and act as intermediaries between Web sites and advertisers. Such companies include DoubleClick, AdForce and Windwire. These companies provide some graphic info and tell the browser what to do if a user clicks on an ad. They also provide some marketing information to the advertiser – such as the user's ISP, what pages he/she looks at and when he/she accessed the site. These companies can also drop "cookies " to provide more marketing information such as what site the user goes to next, where he came from, how long he was on the site and demographics information. The cookie tracking number can personalize your Internet session based on the number, according to *Red Herring*.

DoubleClick Inc. was the first to release a tracking system in September 1996. Their system, Dart, and others are called "closed-loop tracking systems because they record the entire marketing process, from pitch to sale. The process starts when consumer sees a banner, continues when he or she clicks on it, and ends when the consumer performs a transaction," according to the WSJ. Double Click also told *The Wall Street Journal* that they have 100 million profiles stored in databases.

Products such as WebSideStory's HitBox can do something similar by imbedding specific tracking devices in the actual HTML of the page – so if you enter a site for the first time it knows your name, according to *Red Herring*.

Windwire plans to put ads on wireless devices that can call through the advertiser directly or are based on your location -- for example a wireless user would get an ad for the restaurant she is about to pass by as she walks down the street. According to a recent article in *The Wall Street Journal*, wireless ads are the next big trend.

As dot.com companies have and continue to die off, traditional companies such as Anheuser-Busch and Kmart are coming in and doing more Web advertising, CBS MarketWatch CEO Larry Kramer told Reuters. MarketWatch's ad sales surged 47 percent in the fourth quarter of 2000. The ad revenue rose to $8.7 million from the same period last year. According to Reuters, many companies' ad sales were down from the previous quarter, but still up from the previous year.

Nextcard, *The Wall Street Journal* said, is one of the biggest advertisers on the Internet. At any given time, its ads run on some 100 major Web sites, including Amazon.com and Yahoo! The company told *The Journal* it plans to spend $30 million to $35 million on Web marketing in 2001. It spent $31.4 million last year. Since it began in 1997, the company has spent millions on developing a system to calculate ad-conversion rates quickly, to allow for changes.

Unique Interactive Value

How far advertisers can go in terms of aggressive, creative and multimedia advertisements without causing loss of traffic to a Web site is a source of constant debate.

CNet's new redesign includes the "next generation" of Internet ads. The ads appear in the very middle of the homepage. According to Northwestern University new media Prof. Janice Castro, Cnet CEO Shelby Bonnie claimed that allowing these new ads were the only way to attract advertising without compromising the editorial. The ads are much larger, flash-based and are interactive – you can click on them for more information. Some of the ads include video and product "tours." This interactivity benefits the advertiser because it is prime placement right in the vision of the reader. It, however, will most likely annoy readers more than anything else. But, if it means readers can get more information immediately on products they are interested in – it may not be a bad model. Bonnie told *Red Herring* that readers will get used to it and these new types of ads are only "keeping up with technology."

These ads are different from other mediums because they enable a direct response from the user. One could go to the advertiser's site and buy immediately. They provide buying convenience that advertisements on TV or in print cannot. The Web is more task-oriented than any other medium. Web advertising is also unique in that it can provide the advertiser with marketing information on the user and potential buyer.

On the other hand, as mentioned previously, it is very difficult to track the effectiveness of an ad, such as how many people will view it or how many purchases result from a certain ads. With ads in newspapers or print in general, there have been studies done over the years so the effectiveness has been proven. It is easy to track if there is a sale advertised in a certain newspaper for a certain a local store and people migrate to the store, which in some cases might be tracked by coupon use. There is no real proven tracking device for the Web, yet.

Performance

As previously mentioned, ads are the primary source of revenue for e-publishers and despite the recent decrease analysts have projected online ads to grow and increase faster than any other medium. Forrester Research predicts Internet advertising should hit $33 billion by 2004. In 1999, marketers spent 8 percent ($3.5 billion) of their ad budgets online – and it's expected to rise to 20 percent by 2003 according to *Red Herring* in January. In a more conservative estimate, Jupiter Communications predicted spending to hit $16.5 billion by 2005.

Approximately 73 percent of advertisers said they would increase their online advertising spending in the next 12 months, in contrast to the 43 percent who said they would increase their magazine spending and the 37 percent that plan to increase their cable-TV budget. This expected growth would propel the Internet to fourth place as an advertising medium, according to *The Industry Standard*. Overall media spending is projected to grow by 3.8 percent, according to public relations firm McCann-Erickson.

During times of economic crisis, advertising budgets have been among the first that businesses tend to cut, according to AdRelevance, a division of Media Metric, Inc., in a press released May 2000. The Internet Advertising Bureau said Internet ad revenues declined 6.5 percent in the third quarter of 2000 from the second quarter but were still up

63 percent over the same quarter in 1999. Meanwhile, Merrill Lynch & Co. recently forecast that online ad spending will decline 25 percent this year to $6 billion, according to *The Wall Street Journal*. So, while the revenues have been down slightly, so is the economy. But many analysts don't think this is an indication that it is to stay, considering the growth from last year.

"There is no doubt that traditional advertisers are increasing their online spending, as the $6 billion year-to-date attests," said Internet Advertising Bureau chairman Rich LeFurgy in a press release last year.

"With publishers offering a variety of new and innovative ad formats these advertisers are now transitioning their objectives. Increasingly aware of the power of the medium for branding and direct marketing, these savvy advertisers are no longer looking for the most traffic, rather, they are seeking different ways and new creative formats which publishers are offering, to build their brands. This is an industry of innovation, and the serious players are in it for the long haul," LeFurgy said.

Online advertising revenues in third quarter grew to $1.99 billion over last year and declined $138 million from the second quarter 2000. Year-to-date for 2000 as of Dec. 20, 2000, was $6.1 billion. Many companies, including Yahoo, Disney (go.com), *TheStreet.com*, *NBCi.com*, *Dow Jones*, *The New York Times Interactive,* and *Salon.com*, have seen their ad revenues decline and have dissolved site or cut jobs as a result.

With the drop, some companies are placing less emphasis on online ad revenue. *CBS.MarketWatch.com* plans to grow its licensing business, decreasing the level of reliance on ads. The current mix of 70-30 will shift to 50-50. They also just teamed up with Learning Network to offer select content by subscription.

"There is some uncertainty about short-term advertising growth for all media companies," *MarketWatch* CFO Joan Platt told Reuters.

Ads will remain a major source of revenue, but will change and evolve along the lines that *Cne*t is now incorporating.

"Our profitability goal mandates that we seek every new revenue opportunity," said to *Editor & Publisher* Martin Nisenholtz, *New York Times Digital's* CEO, praising CNET's new 360x300 pixel ads. "In order to make online marketing viable, advertisers need more effective positions. We all need to leverage the interactive nature of the Web better," he said.

The new wave of ads will become more interactive and provide more in-depth info for users. In the future, ads will become more personalized – tracking and targeting readers based on purchasing habits learned from cookies or other tracking technology will be key as the technology to follow through on this idea progresses.

New York Times Digital's vice president/international Christine Cook told *E & P Online* last January that they already have advertisers waiting in line for new ads formats, which will be added to a redesigned site. Online advertising has steadily evolved toward larger ads, like skyscrapers. In the fourth quarter 2000, retail advertisers such as Lancome were buying up the skyscraper positions on the *NYTimes.com*, she said

Back-end technologies, such as ad serving and tracking function, provide the infrastructure on which to expand the reach of the Internet as an advertising tool, according to *The Industry Standard*.

Robin Webster, CEO of the Internet Advertising Bureau, said in an interview with AdsGuide.com on March 28, 2001, "Bigger and more interactive ads work better. And it's important that it's both things. … In the beginning we had 800 different pixels, …the advertisers were spending an enormous amount of money just resizing…There's a huge bashing of banner advertising because the click-throughs are down, but it has nothing to do with anything. Because the audience is there, I'm sure that the traditional advertisers are going to use interactive advertising. We're already in wireless, and we plan to go into interactive television as well."

Today, online consumers are becoming increasingly immune to banner ads. As a result, click-through rates dropped as low as one percent in 1999, though banner ads accounted for more than 50 percent of all online ad dollars placed during that year. Today, an estimated 0.5 percent of consumers will click on an ad placed in front of them -- down from an already-slim 2 percent to 3 percent in the mid-1990s, according to *The Wall Street Journal*. The median rate charged for a banner ad fell 16.7 percent to $25 per 1,000 viewers by the end of 2000, down from $30 in the year's first half, according to AdRelevance, an online ad-research unit of Jupiter Media Metrix. While these statistics would appear to signal a decrease in dollars spent on the Web, it has actually triggered an evolution in online advertising, according to *The Standard*.

Changes among online advertising include more aggressive ads, pop-up ads, "animated mega-banners that dominate a page" and reappearing ads, according to *The Wall Street Journal*. In addition, improved technology allows smarter tracking to specific demographics and allows advertisers to monitor response to their ads. Click-throughs are replaced with tracking actual purchases made through the ads. Others create "their own information-heavy sites or sponsor another company's site. The idea: It's easier to get people to listen to a sales pitch if you offer them free content in the bargain."

Ads have and continue to evolve, which is what will keep them a major player in Web site revenue, according to Cnet's Bonnie.

"Companies want to advertise on the Web, but there is a crisis of confidence in the industry on its effectiveness," he told *Red Herring*. He said there is a need to change the standards for Internet ads – which have not been revised for four years.

This evolution not only includes more interactive, informative Web ads, but also e-mail advertising. According to Jupiter Communications, the commercial e-mail market will soar to an estimated $7.3 billion in 2005. Jupiter's research indicates that the number of commercial e-mails that consumers receive will increase from 40 in 1999 to 1,600 by 2005. That growth of e-mail as a marketing tool is attributed to its ability to be quickly implemented; to offer a strong return on advertiser investment (ROI) and its ability to capture targeted consumer information. Michelle Slack, an analyst at Jupiter Communications, was quoted in a recent report as saying, "Businesses are beginning to perceive email as the silver bullet for acquisition and retention strategies."

According to the *Wall Street Journal*, wireless advertising such as on mobile phones and PDAs is gaining growing support in the advertising industry, because it can reach consumers anywhere. However opponents say people won't look at the ads, the screens are too small, and that the ads have the potential of working only for certain industries. Wireless ads cost an average of $40 to $50 per 1000 clicks, more expensive than the average $25 for a Web banner ad.

"By 2005 some analysts project that money spent by advertisers on wireless ads world-wide will soar to as high as $17 billion," *The Wall Street Journal* said.

Long term, analysts are sanguine about digital advertising as it moves beyond banners to e-mail, wireless, and interactive TV.

By 2004, Forrester said, these three categories will account for half of all digital advertising spending, with traditional online ads making up the rest.

Timeline of the growth of online advertising
(Source: *The Wall Street Journal*)

- January 1996: Web/Online Ad $$$ To Grow To $4.6 Billion By 2000, Eclipsing Radio

- February 1996: Analyst Alex. Brown & Co. estimates that Net-related ad revenue will rise from $20 million today to $1.4 billion in 1998. November 1998: "... there's a great land rush going on for advertising space on the Internet. Eventually, there will be a bidding war for sites like this." -- Tony Nethercutt, a salesman for DoubleClick Inc., a New York-based advertising sales network

- November 1998: "Today's intrusive telemarketing will cease to exist. If a consumer gets a call, it will be one he's waiting for and wants to answer."-- Shelly Lazarus, chief executive officer, Ogilvy & Mather Worldwide, a New-York based ad agency

- August 1999: Spending on online advertising is expected to more than triple in the next four years, with the Internet rivaling radio by 2004 as the fourth-largest advertising medium in the country. Forrester Research Inc., a Cambridge, Mass., technology-research firm, estimates that online advertising will make up more than 8% of advertisers' total marketing efforts by 2004 -- up from the current 1.3%, or about $2.8 billion. January 2001: Digital Marketing Will Reach $63 Billion In The US, While Online Advertising Alone Will Rise To $42 Billion Worldwide By 2005 -- Forrester Research news release

- October 2000: A report on the advertising industry by Merrill Lynch & Co.'s Lauren Fine notes that ML Internet Research recently halved its online ad expenditure growth in 2001 to a 15%-to-20% range from 30% to 40%.

- November 2000: Merrill Lynch analyst Henry Blodget warns the "worst is yet to come" in the online-advertising market, which he believes won't "bottom" until the first quarter.

- December 2000: DoubleClick says it's laying off less than 10% of its work force, the first layoffs in the five-year-old company's history

- December 2000: Citing continuing softness in the online-advertising market, Andover, Mass., online marketer Engage Inc. reports earnings below analyst expectations for its fiscal first quarter and gives a gloomy outlook for the rest of the fiscal year.

- December 2000: Spending on online advertising flattens during what was expected to be a strong season for Web ads.

- January 2001: Ad agencies hand out pink slips amid slower growth in spending on advertising and the collapse of dot-coms that were spending freely on attention-grabbing campaigns.

Conclusions

Although online advertising growth rates have dropped steadily in the last two quarters compared to previous years, nobody is expecting to retreat from the Web. Web companies have depended on advertising as their source of income since their inception because that is what worked in print media. But the numbers suggest maybe there is another answer. The question is if a different source of revenue, i.e. sponsorship, will cause companies to sacrifice their editorial integrity. Especially now, when the market is in a downtown, companies have to hold their guard stronger against advertisers pushing for more intrusive advertisements at a cheaper price. The penetration of Internet in U.S. households will exceed 70 percent in the next four years. In the meantime, the online industry will keep maturing while companies re-invent their marketing strategies.

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