

Advertising Industry in the Digital Age

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November 9, 2009

GalleryWatch.com
http://www.crsdocuments.com
Penny Hill Press

Congressional Research Service
7-5700
www.crs.gov
R40908

CRS Report for Congress
Prepared for Members and Committees of Congress

c11173008

Summary

The advertising industry is a major sector of the U.S. economy, employing hundreds of thousands of workers and accounting for about 2% of the nation's annual output, according to some estimates. Advertising campaigns by large firms and small businesses provide consumers with product information and generate crucial income for newspapers, television and radio stations, magazines, and other ventures. The advertising industry is in the midst of a fundamental restructuring, however. The deep recession has depressed ad spending. At the same time, the industry faces longer-term challenges as consumers migrate from traditional media to digital platforms such as websites, cell phones, mobile e-readers, and gaming networks. The emerging digital market offers great advantages including lower distribution costs, the ability to target ads to individuals rather than broad groups, and more precise tools to measure ad impact. But the rise of cut-rate online advertising has hurt media companies and businesses that depend on ad revenue. The changing structure of the market is also forcing changes in ad presentation and content, with implications for consumer privacy, Internet regulation, and media profitability.

U.S. advertising spending declined in 2008. Deeper reductions are forecast for 2009. The sharp drop in ad dollars has prompted advertising agencies and media companies to lay off tens of thousands of workers and curtail production. Though the market is projected to gradually stabilize, some ad-dependent businesses like newspapers and magazines may not see revenues return to pre-recession levels for years, if then.

Online advertising has slowed during the recession, though it is expected to claim a growing share of the market over the longer term. Internet advertising has nearly doubled since 2005, to about 12% of the market, and some forecasts call for it to more than double again by 2014. Digital advertisers are experimenting with a variety of approaches to reach consumers, who are not only dispersed among a multitude of Web pages, games, and social networks, but have more power to screen content using pop-up blockers or video recording devices. Firms are using "behavioral advertising" (tailoring ads to individuals based on technology that tracks their Web activities) or, increasingly, marketing on their own websites or through bloggers. The most successful approach to date is "search" advertising—where companies like Google and Yahoo sell ads as part of consumer-initiated information queries on their browsers. Search advertising, dominated by a few large firms, accounted for nearly half of digital ad revenues in 2008. The online market is generally compressed, with the top 10 digital ad firms garnering 71% of online revenue in the second quarter of 2009.

Congress has long regulated advertising to protect consumers and ensure fair competition. Lawmakers are now debating whether, or how, to update advertising laws for the Internet age, without stifling growth or unduly hurting media outlets dependent on advertising revenue. House members are mulling legislation to enhance privacy rights, which could limit the growth of behavioral advertising. The U.S. Food and Drug Administration (FDA) is examining pharmaceutical marketing in social networks and recently set policies for online marketing. The Federal Trade Commission (FTC) has released guidelines calling on bloggers to disclose paid product reviews. Other potential issues include looking at advertising in online games and online political advertising.

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Introduction

Congress has a long history of regulating advertising to ensure fair competition, shield consumers from unfair or misleading messages, limit the exposure of children, and restrict promotion of products such as tobacco and liquor deemed morally or physically harmful.[1] Policymakers face new challenges as the advertising industry enters a period of far-reaching change brought about by the economic downturn and structural shifts as consumers move to the Internet and other digital platforms for news, entertainment, and socializing.

Federal oversight of the advertising industry is intensifying as regulators and lawmakers try to keep pace with shifting technology and consumer habits. In just the past several months, the Federal Trade Commission (FTC) has updated guidelines for product endorsements to cover online bloggers.[2] The U.S. Food and Drug Administration (FDA) has announced hearings to examine web-based pharmaceutical marketing[3] and the Federal Communications Commission (FCC) is assessing protections for children in the digital sphere, including online advertising.[4] In Congress, lawmakers have introduced legislation to limit the deductibility of advertising for pharmaceutical marketing.[5] Representative Rick Boucher, chairman of the House Energy and Commerce subcommittee on Communications, Technology, and the Internet, has announced plans to introduce legislation setting tighter standards for online privacy, which could limit some forms of targeted advertising.[6] House and Senate committees have held hearings on the state of the newspaper industry, which is in financial distress due to eroding ad revenue.[7] This report is intended to provide context and background for the emerging regulatory debate.

Like other economic sectors, the advertising sector has been affected by the recession. Ad spending declined in 2008 compared to 2007, and fell another 15.4% in the first half of 2009 as companies pared advertising budgets, according to Nielsen Company.[8] Other media analysts say media spending also declined in 2007.[9] Forecasters expect gradual improvement, starting in 2010. Putting the decline in context, advertising has not fallen for three consecutive years since the

[1] CRS Report RL32177, *Federal Advertising Law: An Overview*, by Henry Cohen.

[2] Federal Trade Commission, "FTC Publishes Final Guides Governing Endorsements, Testimonials," press release, October 5, 2009. http://www.ftc.gov/opa/2009/10/endortest.shtm.

[3] Food and Drug Administration, "Promotion of Food and Drug Administration-Regulated Medical Products Using the Internet and Social Media Tools; Notice of Public Hearing," Federal Register, September 21, 2009. http://edocket.access.gpo.gov/2009/E9-22618.htm.

[4] Federal Communications Commission, "FCC Releases Notice of Inquiry on Serving and Protecting Children and Empowering Parents in an Evolving Media Landscape," press release, October 23, 2009. http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-294197A1.pdf.

[5] Office of Senator Al Franken, "Franken Introduces Bill to End Tax Breaks for Drug Company Advertising," press release, October 8, 2009. http://franken.senate.gov/press/?page=release&release_item=Franken_Introduces_Bill_to_End_Tax_Breaks_for_Druge_Company_Advertising.

[6] Clifford, Stephanie, "Two-Thirds of Americans Object to Online Tracking," *New York Times*, September 29, 2009. http://www.nytimes.com/2009/09/30/business/media/30adco.html?ref=business.

[7] Joint Economic Committee, "The Future of Newspapers: The Impact on the Economy and Democracy," hearing, September 24, 2009.

[8] Nielsen Company, "U.S. Ad Spending Fell 15.4% in the First Half, Nielsen Reports," press release, September 1, 2009. http://en-us.nielsen.com/main/news/news_releases/2009/september/us_ad_spending_fell.

[9] *Advertising Age*, "Spending in midst of 3-year drop, first since Depression; Measured media began to fall in March 2008. Advertising is slumping in key areas, including retail, auto and telecom," December 29, 2008.

Great Depression, according to some analyses.[10] While the market is expected to gradually rebound, some traditional media outlets—newspapers, magazines, and radio—may not see revenues rebound to pre-recession levels even over a five-year horizon.[11]

Advertising firms across the country have imposed layoffs and, in some cases, shut down as ad spending has weakened. The number of people employed in advertising and related industries such as public relations and marketing fell to 416,300 in August 2009 from a recent peak of 478,600 in October 2007.[12] Job losses are not confined to the advertising sector. Newspapers, magazines, radio, and television outlets that depend on advertising for most, or in some cases nearly all, of their revenues have fired workers and scaled back operations in response to the advertising declines. Newspapers alone have shed about 30,000 jobs since January 2008.[13]

Even as the advertising industry grapples with the immediate impacts of the recession, it must adapt to structural changes as consumers migrate from traditional media to online platforms. Internet advertising has been the fastest-growing segment of the market, rising to $23.4 billion in 2008, from $4.6 billion in 1999.[14] The digital arena, loosely defined, includes video, text, and "display" advertisements placed on business and media websites, within social media like My Space and Facebook, on iPhones and digital readers. Internet advertising declined by 5.3% in the first half of 2009 compared to the same period in 2008, according to the Interactive Advertising Bureau (IAB). During the next five years (2009-2014), however, consulting firm Forrester Research expects digital advertising, now about 12% of the U.S. advertising spending, to reach a 21% share, with revenues rising from $26 billion to about $55 billion.[15] The Internet has grown nearly twice as fast as cable television did in its infancy, for instance, measured in terms of ad revenues[16] and with the advent of new technologies allowing long-form video on the Web, has the capacity to emerge as a substitute for television as it presently exists.

The online market potentially offers major opportunities for advertisers. Smaller businesses can place their ads in front of millions of people at a low cost. Technology makes it possible to measure the effectiveness of ads by counting the number of consumers who click on online offerings or watch online videos. Cell phones and other mobile devices give advertisers more access to more consumers for more hours of the day.[17] Companies have increased ability to fine-tune ad strategies, with many now buying and adjusting media on a weekly or daily basis, rather than at set intervals during the year.[18] Firms can also directly tout their products online, which has

[10] Ibid.

[11] Wieser, Brian, *MAGNA Media Advertising Forecast*, MAGNA, July 13, 2009. http://www.mediabrandsww.com/Attachments/NewsPress/MAGNA%20Media%20Forecast%20July%202009.pdf.

[12] Bureau of Labor Statistics data for advertising and related services, NAICS Code 5418.

[13] Paper Cuts. http://graphicdesignr.net/papercuts/.

[14] Pricewaterhouse Coopers and Interactive Advertising Bureau, *IAB Advertising Revenue Report, 2008 Full Year Results*, March 2009, p. 6. http://www.iab.net/media/file/IAB_PwC_2008_full_year.pdf.

[15] VanBoskirk, Shar, "Interactive Marketing Nears $55 Billion; Advertising Overall Declines," Forrester Research, July 7, 2009. http://blogs.forrester.com/marketing/2009/07/interactive-marketing-nears-55-billion-advertising-overall-declines.html.

[16] Vollmer, Christopher, *Digital Darwinism*, a joint report by Booz & Company, Association of National Advertisers, Interactive Advertising Bureau, and American Association of Advertising Agencies, July 9, 2009, p. 4 . http://www.booz.com/global/home/what_we_think/reports_and_white_papers/ic-display/46079566

[17] eMarketer, "Monetizing Mobile Ads," August 4, 2009. http://www.emarketer.com/Article.aspx?R=1007209

[18] Vollmer, Christopher, *Digital Darwinism*, a joint report by Booz & Company, Association of National Advertisers, Interactive Advertising Bureau, and American Association of Advertising Agencies, July 9, 2009, p. 10.
(continued...)

helped spur growth in so-called below-the-line marketing such as corporate websites, blogs, and e-mail solicitations. Below-the-line marketing appears to be crowding out some above-the-line spending, the term generally used to refer to media-based advertising.[19]

Despite the myriad of websites and blogs, the online market is compressed. The top 10 ad-selling firms accounted for 71% of total online advertising revenues in the second quarter of 2009, according to the IAB.[20] Search advertising alone accounted for 47% of digital ad revenues in the first half of 2009, the IAB data show.[21] Under search, an advertiser bids, via an ongoing auction process, to have his or her ad displayed when a consumer types a query into a search engine using a given keyword. The search market is dominated by Google and Yahoo (now in a partnership with Microsoft, which has the Bing search engine).

At the same time, the vast proliferation of ad-supported websites, online videos, blogs, and other offerings has created more supply than can be readily sold, helping to depress advertising rates in both online and in conventional media markets. "The Internet hurt traditional media by not only increasing its share of consumer time spent, but also by further weakening the ad-pricing power of traditional media," according to an analysis by Catalyst Investors.[22]

Advertisers also are discovering that it can be challenging to connect with online consumers, who have more power to screen content via pop-up blockers, digital recording devices, and other technologies. "With digital consumers increasingly in control of their media experience and advertisers shifting their spend to more interactive, measurable formats, companies must move beyond traditional advertising," IBM Global Services analysts wrote in a recent report.[23]

Firms are experimenting with new tools. Advertisers have long used demographic and other data to target audiences, but the Internet, with its veritable wealth of information about consumer behavior, is moving this practice to a new level. Advertisers are using behavioral advertising (targeting ads using data collected as individuals browse the web, register for websites or sign up for promotions) in conjunction with search and other strategies. Companies are also aiming to become part of ongoing digital consumer conversations, tapping into social networks, creating mobile phone applications and working with popular bloggers.[24]

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http://www.booz.com/global/home/what_we_think/reports_and_white_papers/ic-display/46079

[19] IBIS*World, Advertising Agencies in the US: 54181*, April 14, 2009, p. 32; Fine, Jon, "Marketing's Drift Away from the Media," *Business Week*, August 6, 2009. http://www.businessweek.com/magazine/content/09_33/b4143064876775.htm.

[20] Interactive Advertising Bureau, *IAB Internet Advertising Revenue Report*, 2009 Second Quarter and First Six Month Results, October 2009, p. 7. http://www.iab.net/media/file/IAB-Ad-Revenue-Six-month-2009.pdf.

[21] Ibid.

[22] Newton, Tyler, *Traditional Media: Down But Not Out*, Catalyst Investors, July 7, 2009, p. 4. http://www.catalystinvestors.com/files/pdf/Catalyst-Traditional_Media_Down_but_Not_Out_7-7-09.pdf

[23] Berman, Saul, Bill Battino, and Karen Feldman, *Beyond Advertising, Choosing a strategic path to the digital consumer*, IBM Global Services, February 2009, p. 1. http://www-05.ibm.com/de/media/downloads/beyond-advertising-qr.pdf.

[24] Wiener, Bryan, *2009 Social Marketing Playbook*, 360i , June 9, 2009. http://blog.360i.com/social-media/playbook

Advertising and the Economy

Advertising—the use of images, sounds, and slogans to communicate a message that will spark consumer interest in goods or services—is deeply ingrained in America's market-based economy. Advertising allows businesses to promote products or burnish corporate reputations, politicians to connect with voters, the military to boost recruitment and advocacy groups to raise public awareness.

Advertising has been part of the U.S. economy since Colonial times. The first known ad published in the United States was a 1704 announcement in the *Boston News-Letter* seeking a buyer for an Oyster Bay, New York estate. Investor and diplomat Benjamin Franklin's *Pennsylvania Gazette*, which began production in 1729, included pages of advertisements.[25] (See Box, page 8.)

Today, advertising is so intertwined in the nation's daily business that consumers may not realize how constantly they are bombarded with product pitches. By one accounting, the average American is exposed to 500-1,000 advertisements daily.[26] In 2005, for example, a one-hour broadcast television program included anywhere from 16 to 22 minutes of commercials. Ads—ranging from a grainy line of text to sophisticated video—are everywhere from cell phones to gas pumps, billboards, television, newspapers, magazines, and movie screens.[27]

Advertising can improve market efficiency by providing consumers and businesses with information about products or services that increase competition and reduce prices.[28] The online market potentially offers even more advantages by reducing costs and allowing closely targeted messages.[29] The ad industry has also been assailed by critics, however, including some economists, who say advertising increases business costs by making it more expensive for new entrants to compete against established brands.[30] Consumer groups have condemned advertisers for exploiting public fears and aspirations to push products that can be unnecessary or harmful.[31]

Advertising plays another important role in the United States: providing a subsidy for "free" broadcast television and radio, low-cost newspapers, and magazines. U.S. newspapers have traditionally garnered about 80% of revenues from running advertisements, consumer magazines 55%, and some specialty publications such as business trade magazines up to 100%.[32] Broadcast

[25] *Advertising Age*, "The Advertising Century, Advertising History Timeline," 1999. http://adage.com/century/timeline/index.html.

[26] Arens, William F., David H. Schaefer, and Michael Weigold, *Essentials of Contemporary Advertising*, Second Edition, McGraw-Hill Irwin, 2008, p. 34.

[27] Ibid.

[28] CRS Report RL34101, *Does Price Transparency Improve Market Efficiency? Implications of Empirical Evidence in Other Markets for the Health Sector*, by D. Andrew Austin and Jane G. Gravelle.

[29] Edelman, Benjamin, *Towards a Bill of Rights for Online Advertisers*, September 21, 2009. http://www.benedelman.org/advertisersrights/

[30] Nayaradou, Maximilien, *Advertising and Economic Growth*, The University of Paris Dauphine (doctoral thesis partly funded by French Advertisers' Association), June 2006.

[31] Morrison, Dianne See, "Consumer Groups Target Mobile Advertising; FTC Complaint Alleges Deceptive Practices," *mocoNews.net*, January 13, 2009. http://moconews.net/article/419-consumer-groups-hit-out-at-mobile-advertising-ftc-complaint-alleges-unf/.

[32] Standard & Poor's Industry Surveys, *Publishing & Advertising*, August 21, 2008, p. 9.

radio and television depend on advertising for the vast bulk of their earnings. The longstanding ad-based media model is now breaking down due to the recession and emergence of the Internet, with implications for specific businesses and, more broadly, for dissemination of news and information.[33]

Scale of the Advertising Industry

Advertising makes up a larger slice of economic activity in the United States than in other countries, which is not that surprising considering that ad spending tends to be higher in wealthier, consumer-driven nations.[34] According to one longstanding measure, the advertising industry accounts for about 2% of annual Gross Domestic Product, the broadest measure of goods and services produced in the United States.[35] (See **Figure 1**.)

Estimates of the size of the advertising industry vary, depending on the type of data and precise market definition used. Some measures encompass advertising and marketing. Advertising refers to specific messages designed to pique consumer interest in a brand, institution or service, while marketing is the broader practice of researching, planning, and buying advertising.[36] Other industry definitions include public relations and other services.

The advertising industry for decades relied on estimates by Robert Coen of advertising firm Universal McCann (now part of MAGNA, which is owned by industry giant Interpublic). His estimates were also cited by government agencies. Coen, who retired this year at age 86, began working in advertising in 1948. He compiled data based on agency billings, production and proprietary information. Coen also tracked advertising fluctuations against changes in overall GDP. In his last published forecast, for 2008, Coen pegged U.S. ad spending at $258.7 billion.[37]

[33] CRS Report R40700, *The U.S. Newspaper Industry in Transition*, by Suzanne M. Kirchhoff.

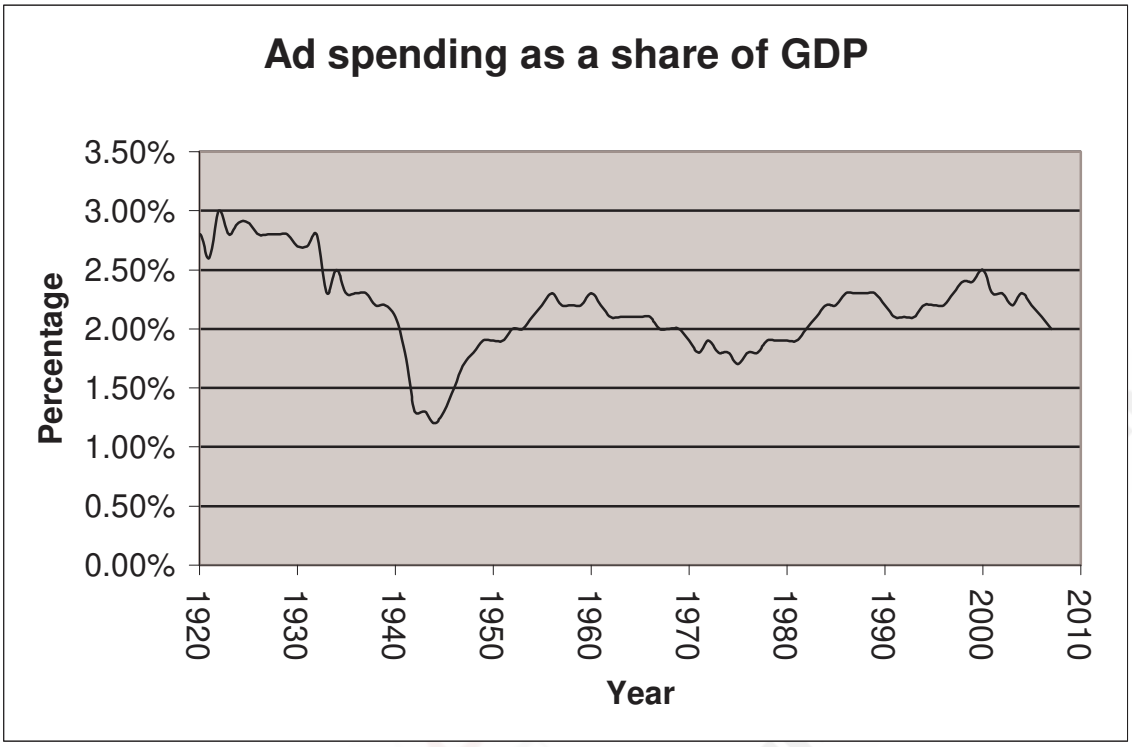
[34] Arens, William F., David H. Schaefer and Michael Weigold, *Essentials of Contermporary Advertising*, Second Edition, McGraw-Hill Irwin, 2009, p. 27; Nayaradou, Maximilien, *Advertising and Economic Growth*, The University of Paris Dauphine (doctoral thesis partly funded by French Advertisers' Association), June 2006.

[35] http://purplemotes.net/2008/09/14/us-advertising-expenditure-data/; U.S. Census Bureau's *Historical Statistics of the United States, Colonial Times to 1970*. http://www2.census.gov/prod2/statcomp/documents/CT1970p2-07.pdf.

[36] Arens, William F., David H. Schaefer and Michael Weigold, *Essentials of Contemporary Advertising*, Second Edition, McGraw-Hill Irwin, 2009, p. 6.

[37] Elliott, Stuart, "Madison Avenue's Chief Seer," *New York Times*, March 22, 2009. http://www.nytimes.com/2009/03/23/business/media/23adcol.html.

Figure 1. U.S. Advertising and the Economy



Source: U.S. Advertising Industry Data, Purple Motes, McCann Erickson.

Coen's successor at MAGNA, Brian Wieser, has taken a different approach that measures advertising by focusing more on revenues than on billings, includes different underlying sources for determining the volume of Internet advertising and lower revenues for direct mail than Coen, for example. Wieser expects U.S. advertising to reach $161 billion in 2009.[38] Wieser says his data show advertising spending is most sensitive to fluctuations in consumer spending and manufacturing output, rather than overall changes in GDP.[39]

According to the Census Department, advertising and related service firms had $84 billion in revenues in 2008. For the first six months of 2009, such firms had revenues of $38 billion, a more than 8% decline from the same period in 2008.[40] Other media and advertising consulting firms that provide forecasts and estimates include the Nielsen Company, TNS Media, eMarketer and Veronis Suhler Stevenson.

Though forecasters differ on bottom-line numbers, their trend lines are generally similar. Total advertising spending is forecast to decline this year, largely due to the recession. The online sector

[38] Magna, "Magna Media Advertising Forecast: New 2010 Figures Reflect Improving Economic Conditions," press release, October 13, 2009.

[39] Mandese, Joe "The Case of the Missing Billions: Interpublic Giveth, But Mostly It Taketh Away," *MediaPost News*, July 14, 2009. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=109734

[40] Census Department, *Annual and Quarterly Services*. http://www.census.gov/services/index.html

is not immune, though it is projected to fare better than many other segments, such as print newspapers and broadcast television. (See **Table 1**.)[41]

The Nielsen Company estimates that U.S. ad spending fell 15.4% in the first half of 2009, compared to the same period in 2008.[42] Analysts at Barclay's Capital forecast that total 2009 U.S. ad spending will shrink by 13% from 2008.[43] Over the longer term, Wieser expects advertising spending to recover, with a compounded annual growth rate of 1.2% between 2009 and 2014.[44]

Table 1. U.S. Advertising Revenues by Select Media, 2009

Projected ad spending for 2009, compared to 2008, in billions of dollars

Type of Media	Projected 2009 Revenues	Percentage Change
Television[a]	$47.7	-14.4%
Newspapers	$28.5	-29.5%
Online total	$23.0	-2.2%
Direct Mail	$19.2	-11.2%
Magazines	$15.7	-18.3%
Radio	$14.0	-21.0%
Directories	$12.1	-10.5%
Outdoor	$6.1	-12.9%

Source: MAGNA Media Advertising Forecast, July 13, 2009.

a. Television category does not include cable.

One big reason that ad spending has taken a nosedive has been the distress in the U.S. auto industry, a huge national advertiser. Car companies sharply curtailed ad spending as their sales cratered and General Motors and Chrysler went through bankruptcy. Still, many businesses in highly competitive sectors of the economy have tried to keep their ad budgets constant in recent months, or increase them, to protect market share. In 2008, the top 100 U.S. advertisers reduced spending by a collective 2.7%, according to *Advertising Age*. But half of the top 100 advertisers increased total ad spending, seeking to hold on to or increase sales and name recognition.[45]

[41] Some other forecasts call for Internet advertising to rise in 2009 overall including eMarketer which projects a 4.5% increase in online spending in 2009 from 2008.

[42] Nielsen Company, "U.S. Ad Spending Fell 15.4% in the First Half, Nielsen Reports," press release, Sept. 1, 2009.

[43] Wilkerson, David B., "U.S. Advertising Spending Seen Plunging 13% in 2009, " *MarketWatch*, March 12, 2009. http://www.marketwatch.com/story/us-advertising-revenue-plunge-13-2009

[44] MAGNA, "MAGNA Media Advertising Forecast: New 2010 Figures Reflect Improving Economic Conditions," press release, October 13, 2009.

[45] Johnson, Bradley, "Spending fell (only) 2.7% in '08. The real issue: '09," *Advertising Age,* June 22, 2009. p. 1

U.S. Advertising History

The modern ad industry traces its roots to the 1800s, when advances in photography, magazines, the telegraph and other technology brought about national communications, mass production and mass marketing.[46] Volney Palmer, a Philadelphia businessman, formed the first U.S. advertising agency in the 1840s when he began buying large chunks of ad space from newspapers and reselling them to clients at a higher price.[47] At the close of the 19th century, advertising agencies had moved from merely brokering sales to creating advertising content. The industry became more professional and more persuasive.

In the 1920s, the J. Walter Thompson advertising agency hired noted psychologist John Watson, a leader in behaviorism, which explains human action in terms of stimulus and response.[48] George Gallup, later of the famous Gallup polling firm, joined ad agency Young and Rubicam in 1932.[49] Advertising expanded with the growth of radio. Advertising firms backed radio programs such the Fleischman's Yeast Hour, with crooner Rudy Vallee, and the Lucky Strike Dance Hour; two of the top-rated evening radio programs of 1930-31 season.[50]

With the advent of television in the 1940s, advertising was again transformed. As with radio, advertisers initially supported programs— Milton Berle's Texaco Star Theater and Kraft Television Theater are examples—but costs became prohibitive. Advertisers moved from backing entire programs, to buying one- or two-minute blocks of time. They still had influence over programming, but networks had say over content.[51]

The advertising industry hit creative highs during the 1950s and 1960s. Chicago ad firm Leo Burnett created product icons like the Jolly Green Giant, Pillsbury Dough Boy and Marlboro Man. [52] Ad firm Doyle Dane Bernbach's "Think Small" promotion campaign for the Volkswagen Beetle—which created wide consumer acceptance for a runty foreign car that looked like nothing on American roads—is rated by many as the most influential ad campaign in U.S. history.[53]

In the 1970s and 1980s prominent ad firms—some with competing clients—were merged or taken over. The ad sector is now dominated by large holding companies such as Publicis Groupe and Omnimedia. The recession of the early 1980s changed advertising patterns as advertisers began relying more on promotions via coupons and direct marketing. By 1990 the advertising industry had lost 25% of its share of business marketing budgets to other forms of marketing communications. Additional changes meant the loss of 13,500 advertising jobs in three years.[54]

By the mid-1990s, advertising budgets were again growing at double-digit rates. The industry took another hit when the dot.com bubble burst in the late 1990s.[55] In recent years smaller, edgier firms have gained prominence. New companies focus on digital advertising and marketing. New ad networks are springing up on the web.[56]

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[46] Arens, William F., David H. Schaefer, Michael Weigold, *Essentials of Contemporary Advertising*, McGraw-Hill Irwin, Second Edition, p. 13.

[47] Holland, Donald R. "Volney B. Palmer: The Nation's First Advertising Agency Man," *The Pennsylvania Magazine of History and Biography*, Vol. 98, No. 3 (Jul., 1974), pp. 353-381. http://www.jstor.org/stable/20090872.

[48] Simpson, Joanne Cavanaugh, "It's All in the Upbringing," *Johns Hopkins Magazine*, April 2000. http://www.jhu.edu/~jhumag/0400web/35.html.

[49] *Advertising Age*, "The Advertising Century," Advertising History Timeline, 1999. http://adage.com/century/timeline/index.html.

[50] Mashon, Michael, *Sponsor*, The Museum of Broadcast Communications. http://www.museum.tv/archives/etv/S/htmlS/sponsor/sponsor.htm; The Original Old Time Radio (OTR) WWW Pages "The Highest Rated Programs During Radio's Golden Age, 1930-31 Season." http://www.old-time.com/ratings/by%20season/1930s/19301931eve.html.

[51] Arens, William F., David H. Schaefer, Michael Weigold, *Essentials of Contemporary Advertising*, McGraw-Hill Irwin, Second Edition, p. 16.

[52] *Time,* "Builders & Titans, Leo Burnett," December 7, 1998. http://www.time.com/time/time100/builder/profile/burnett.html.

[53] *Advertising Age*, "The Advertising Century, Top 100 Advertising Campaigns," 1999. http://adage.com/century/campaigns.html.

[54] Arens, William F., David H. Schaefer, and Michael Weigold, *Essentials of Contemporary Advertising*, McGraw-Hill Irwin, Second Edition, p. 13.

[55] Ibid, p. 16.

[56] Borrell Associates/Clickable, *Economics of Search Marketing*, June 2009. http://www.borrellassociates.com/
(continued...)

Other large U.S. advertisers, by dollar value, are home products firms like Proctor & Gamble, and retailers like Macy's.[57] (See **Table 2**.) The most-advertised U.S. brand in 2008 was Verizon with $2.2 billion in measured media spending, followed by AT&T, with just under $2 billion, according to TNS Media Intelligence.[58] Pharmaceutical spending has become a major category, with direct-to-consumer advertising of prescription drugs rising from about $800 million in 1996 to more than $4.7 billion in 2007.[59]

Table 2. Top Advertisers, First Half 2009

Dollar amounts in millions

Product Category	Q1-Q2 2009	Q1-Q2 2008	% Change
Automotive	$3,681.2	$5,363.6	-31.4%
Fast Food Restaurant	$2,200.7	$2,093.4	5.1%
Pharmaceutical	$2,148.0	$2,421.2	-11.3%
Wireless Telephone	$1,871.4	$1,847.1	1.3%
Motion Pictures	$1,709.0	$1,680.7	1.7%
Auto Dealers - Local	$1,688.5	$2,288.3	-26.2%
Department Stores	$1,565.8	$1,637.2	-4.4%
Direct Response Products[a]	$1,260.1	$1,181.1	6.7%
Restaurants	$834.6	$867.7	-3.8%
Furniture Stores	$773.8	$802.9	-3.6%
Top 10 Product Groups	$17,733.1	$20,183.1	-12.1%

Source: The Nielsen Company.

a. Direct Response refers to products sold via infomercials or home shopping networks including such products as Snuggie Blankets, Rosetta Stone Computer Software or Video Professor Computer Software Data excludes business-to-business magazine ad spending.

Advertising Employment

The advertising industry is now dominated by large, multinational holding companies. Four of the biggest, Omnicom Group, the WPP Group, the Interpublic Group of Companies, and Publicis Groupe, accounted for 54% of the $31.1 billion earned by U.S. ad firms in 2007.[60]

"The holding company concept was pioneered by the Interpublic Group of Companies as a means of circumventing the longstanding industry norm which precludes an advertising agency from

(...continued)

component/content/article/76-economics-of-search-marketing-addressing-the-challenges-of-a-scalable-local-advertising-model.

[57] Morrison, Maureen, "Verizon Tops AT&T as Most-Advertised Brand," *Advertising Age*, June 22, 2009. http://adage.com/datacenter/article?article_id=137407.

[58] Ibid.

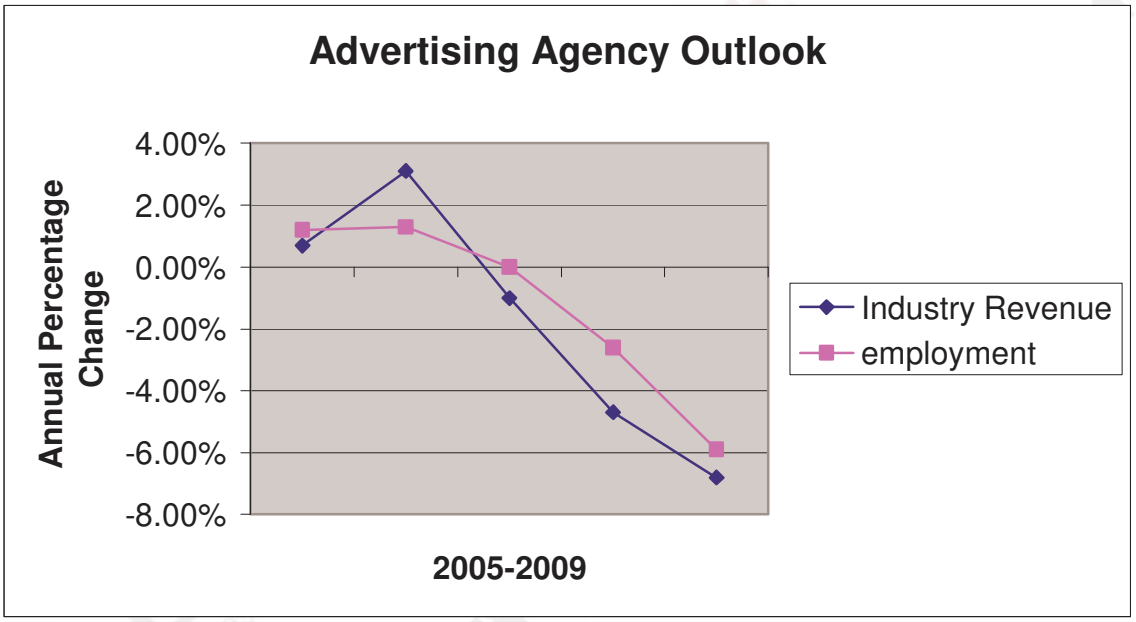
[59] CRS Report R40590, *Direct-to-Consumer Advertising of Prescription Drugs*, by Susan Thaul.

[60] *Advertising Age,* "Agency Report 2008," May 5, 2008.

serving competing clients in the same market. To respect this requirement, holding companies are organized into separate sub-groups or "networks" of affiliated units offering more or less similar mixes of services but that operate independent of one another and that often compete with one another for client accounts," Harvard professors Alvin Silk and Charles King III wrote in an analysis of the industry.

Their paper examined data from the late 1970s through most of the current decade to test whether the market was overly concentrated.[61] It found that, using the Herfindahl-Hirschman Index (HHI), a benchmark measure of industry competition, the advertising and market services industry was not overly concentrated at the general level. The four largest holding companies had between a fifth and a quarter of total industry revenue, a share that was stable from 2002-2006.

Figure 2. Advertising Agency Economic Conditions



Source: Real Growth Numbers, IBIS World, *2009 Advertising Agencies in the U.S.*

Holding companies offer such services as account management and ad production and placement. Boutique firms, which can be independent or part of a larger company, generally focus on one aspect of marketing or advertising.[62] Advertising firms are found across the country, though about 20% of advertising businesses, and more than a quarter of the industry's workers, were located in California and New York in 2006.[63]

The composition of ad agencies is changing as digital advertising assumes a more important role. Online advertising, as compared to traditional ad campaigns, is more data-driven, based on

[61] Silk, Alvin J. and Charles King, III, *Concentration Levels in the U.S. Advertising and Marketing Services Industry: Myth vs. Reality*, Harvard Business School Working Paper 09-044, Sept 24, 2008, p. 6. http://www.hbs.edu/research/pdf/09-044.pdf.

[62] Peters, James and William H. Donald, *Industry Surveys, Advertising*, Standard & Poor's, August 9, 2007.

[63] Bureau of Labor Statistics, U.S. Department of Labor, *Advertising and Public Relations Services*. http://www.bls.gov/oco/cg/cgs030.htm.

information about consumer preferences, website popularity, clicks per ad and mathematical formulas used by Google and other ad sellers to determine price and placement of ads. "Advertising strategies, campaigns and distribution are increasingly based on predictive algorithms, spreadsheets and math. Marketing and math have intersected," according to a Booz & Co. report for major U.S. advertising groups.[64]

Advertising agencies have been focusing on higher-growth non-advertising business, including market research, media planning, interactive media and customer relationship management. Companies are deriving a larger share of revenues from non-advertising sources.[65]

There were 416,300 people employed in advertising and related industries in August 2009. That was down from a recent peak of 478,600 in October 2007 according to the Labor Department. Looking at a narrower slice of the industry, advertising agencies employed an estimated 163,300 workers in August 2009, compared to a recent peak of 189,700 in October 2007.[66] According to 2002 economic census, there were about 38,000 advertising, marketing, public relations and related establishments in the United States. The U.S. Census Department data include workers who write copy, create drawings, photos, paintings and video, perform market research and executive ad buys in various media.[67] The industry is labor intensive, with wages equaling about 44% of total revenues.[68]

U.S. advertising agencies traditionally charged clients a 15% commission for their work. Such pricing continued to be the industry standard for years, even after courts in the 1950s ruled against advertisers in a series of antitrust cases. In those cases, magazine and newspaper publishers charged that the commission system limited their ability to directly bargain with advertisers.[69] Industry compensation has changed significantly in recent decades. In 2003, just 10% of large national advertisers relied on commissions, while 74% used fee-based models according to one study.[70]

Advertising and Media

The shifting ad market, in conjunction with reduced ad spending due to the recession, has had a dramatic impact on traditional media. In the past year, newspaper publishers such as the Tribune Company, which publishes the *Chicago Tribune*, *Baltimore Sun* and *Los Angeles Times*, have

[64] Landry, Edward, Carolyn Ude and Christopher Vollmer, *HD Marketing 2010: Sharpening the Conversation*, Booz & Co. with the Association of National Advertisers, Interactive Advertising Bureau and American Association of Advertising Agencies, 2009, p. 6. http://www.boozallen.com/media/file/HD_Marketing_2010.pdf.

[65] Standard & Poor's Industry Survey, *Publishing & Advertising*, August 21, 2008, p. 16.

[66] Department of Labor employment data.

[67] U.S. Census, *Advertising and Related Services: 2002*, Table 1. http://www.census.gov/prod/ec02/ec0254i08t.pdf Economic consulting firm IHS Global Insight, in studies for the advertising industry, has estimated U.S. advertising employment at about a million people including in-house staff at large corporations involved in marketing and advertising.

[68] IBIS*World, Advertising Agencies in the US*, April 14, 2009, p. 19.

[69] Arzaghi, Mohammad, Ernst R. Berndt, James C. Davis, and Alvin J. Silk, *Economic Factors Underlying the Unbundling of Advertising Agency Services*, National Bureau of Economic Research, September 2008, p. 3. http://ideas.repec.org/p/nbr/nberwo/14345.html.

[70] Ibid.

declared bankruptcy.[71] Publishers have pulled the plug on venerable magazines like *Gourmet*, which had been in operation since 1941.[72] Radio and television revenues have plunged.

In one example of the market shift, consulting firm Borrell Associates expects advertising in the Yellow Pages (print telephone directories of local businesses), newspapers, radio and direct mail to decline by nearly 20% during the next five years. Local online search advertising is expected to surge by nearly 40% during that period.[73]

Media companies are struggling to craft new business strategies, developing extensive online operations as their readers, viewers and listeners move to the web. Some media firms now have online properties that pull in millions of consumers each month. But revenues have not grown in proportion to the digital audience, for several reasons. Most news organizations chose to offer content for free online, under the theory they would generate higher advertising revenues by increasing their consumer base.[74] Another factor is proliferation of websites, which has pushed down the price for some types of ads, especially as demand has waned during the recession.[75] Newspapers, for example, may be able to sell an ad in their physical ink-and-paper product for $20 per thousand, but for less than $1 on their website.[76]

Media companies are taking on some of the functions of marketing and advertising firms as they reposition themselves. Media outlets are providing marketing services to potential advertisers based on their own internal data about subscribers, their Web reach and other information. Newspapers are banding together to combine their content or are working in concert with Internet ad giants like Yahoo.[77] A number, including *Newsday*, are starting to charge for online content.[78]

News Corp. Chairman Rupert Murdoch recently said the ad environment is improving or at least leveling out.[79] But earnings reports by large newspaper companies show that the advertising environment continues to be challenging. Gannett Co. reported that advertising revenues at its newspapers were down 28.4% in the third quarter of 2009, compared to a year earlier.[80] That is a

[71] *Associated Press*, "Status of Newspaper Publishers that filed Ch. 11," September 14, 2009. http://www.google.com/hostednews/ap/article/ALeqM5glKJRt4h5si3xUGoATac4MLbNAqgD9AN9E083.

[72] Clifford, Stephanie, "Conde Nast Closes Gourmet and 3 Other Magazines," *New York Times*, October 5, 2009. http://www.nytimes.com/2009/10/06/business/media/06gourmet.html.

[73] Borrell, Gordon, "The Rumors of Newspapers' Death," *Borrell Associates*, August 6, 2009. http://www.borrellassociates.com/wordpress/2009/08/06/the-rumors-of-newspapers-death/.

[74] Mutter, Alan, "How to sell news on the web: A checklist," *Reflections of a Newsosaur*, October 5, 2009. http://newsosaur.blogspot.com/2009/10/how-to-sell-news-on-web-checklist.html.

[75] *MediaPost News*, "CPM Prices Falling Precipitously," January 26, 2009. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=99087.

[76] Farhi, Paul, "Build that Pay Wall High," *American Journalism Review*, August/September 2009. http://www.ajr.org/Article.asp?id=4800.

[77] Kaplan, David, "Yahoo Newspaper Consortium Adds Five Members," *PaidContent*, June 16, 2009. http://paidcontent.org/article/419-yahoo-newspaper-consortium-adds-five-members/.

[78] Perez-Pena, Richard, "Newsday Plans to Charge for Online News," *New York Times*, October 22, 2009. http://www.nytimes.com/2009/10/23/business/media/23newsday.html.

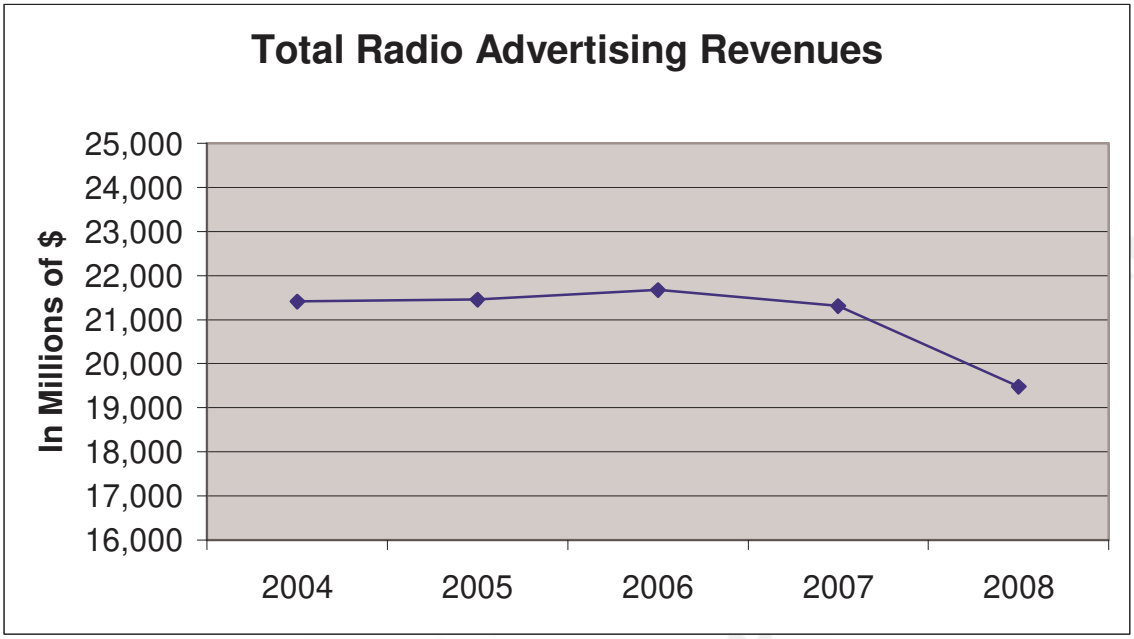
[79] Maxwell, Kenneth, "News Corp Sees Advertising Markets Improving," *Dow Jones Newswires*, October 5, 2009. http://online.wsj.com/article/BT-CO-20091005-709507.html.

[80] Gannett Company, "Gannett Co. Inc. Reports Third Quarter Results," press release, October 19, 2009. http://www.gannett.com/news/pressrelease/2009/3Q09.pdf.

slight improvement from the second quarter, when revenues were 32% below year-ago levels. Still the company eked out better-than-expected profits by slashing expenses.

Figure 3. Broadcast Radio Advertising 2004-2008

Includes Network, National, Local and Off-Air Revenues



Source: Radio Advertising Bureau.

Even if online advertising does double by 2014, as some forecast, traditional media is expected to have the lion's share of the market. Television is expected to remain the dominant advertising choice, given the ease of reaching huge audiences on broadcast and cable stations. Still, there is no question that some areas of the media, particularly print media, face financial stress due to the current, troubled ad market:

- Daily newspaper revenues have declined to about $38 billion in 2008 from $49.5 billion in 2005.[81] Print ad revenues plummeted 30% in the second quarter of 2009, compared to the same period a year earlier. Online newspaper ad revenues, which had been growing, declined 16% during the period.[82] Newspapers have attracted millions of online readers, but earn only about 10% of their revenues from digital operations.[83] Newspapers have lost lucrative classified advertising to online sites such as Craigslist that charge very few fees.[84] Borrell Associates predicts newspaper advertising revenues will rise by 2.4% in 2010, and by low

[81] Newspaper Association of America, *Advertising Expenditures*. http://www.naa.org/TrendsandNumbers/Advertising-Expenditures.aspx.

[82] Newspaper Association of America, *Quarterly Advertising Expenditures*, August 9, 2009. http://www.naa.org/TrendsandNumbers/Advertising-Expenditures.aspx.

[83] Ibid.

[84] Wolf, Gary, "Why Craigslist is Such a Mess," *Wired*, August 24, 2009. http://www.wired.com/entertainment/theweb/magazine/17-09/ff_craigslist.

single-digit increases for several more years after that. By 2014, newspaper ad revenues will be 8.7% above 2009 levels, though still remaining well below previous peaks. The firm admits what it terms a positive projection "equates to a dead-cat bounce more than anything else."[85]

- Magazine advertising totaled $9.1 billion in the first half of 2009, a 21% decline from the previous year, the Publishers Information Bureau reported in July. The number of ad pages was down 28% during that period. [86] The impact was clear in early October, when publisher Conde Nast closed four magazines—including *Gourmet*. The company also imposed 20-25% cost reductions on many remaining publications.[87] Longer term, analysis firm Zenith Optimedia says magazines have a brighter outlook than newspapers, since reading a magazine is less easy to replicate on the Internet. The firm predicts magazine advertising will return to 1.5% growth in 2011, though it will be 22.4% below 2007 levels.[88]
- Broadcast radio, which makes nearly all its money from advertising, saw a 9% increase in digital revenues in the second quarter of 2009.[89] Radio revenues declined about 25% in the first half of 2009, according to the Radio Advertising Bureau.[90] Radio stations are moving aggressively into the digital marketplace, offering radio streaming applications for iPhones and creating their own websites. Some radio firms have been buying Internet-based companies. In the United States, radio advertising peaked at nearly 13% of the market in 2002 and is now down to about 10%.[91]
- Television broadcast ad revenues fell 12.8% in the second quarter of 2009 compared to the same period in 2008, according to the Television Bureau of Advertising, which based its analysis on TNS Media Intelligence data.[92] Still, even though the audience has become more splintered among hundreds of cable channels, television has the broadest scope and is the easiest platform to use to reach a mass audience. The industry is expanding its digital offerings. Hulu.com, a free Internet site (supported by advertising) where people watch episodes of broadcast and cable programs like "Family Guy or "Desperate Housewives" has attracted millions of viewers. Some industry leaders are questioning whether programs that cost millions of dollars to produce should be offered for no cost.[93]

[85] Borrell, Gordon, "The Rumors of Newspapers' Death," *Borrell Associates,* August 6, 2009. http://www.borrellassociates.com/wordpress/2009/08/06/the-rumors-of-newspapers-death/.

[86] Magazine Publishers of America, "PIB: Recession Continues to Impact Magazine Advertising in the First Half," press release, July 10, 2009. http://www.magazine.org/advertising/revenue/by_ad_category/2009Q2.aspx.

[87] Clifford, Stephanie, "Conde Nast to Close Gourmet, Cookie and Modern Bride," *New York Times*, Oct 3, 2009. http://mediadecoder.blogs.nytimes.com/2009/10/05/conde-nast-to-close-gourmet-magazine/?hp.

[88] Mandese, Joe, "Online Ad Spending Rises at Double Digit Rates, Gains Share Vs. All Other Media," *Online Media Daily*, July 6, 2009. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=109200.

[89] Radio Advertising Bureau, "Radio Continues to Mine New Advertisers," press release, August 21, 2009. http://www.rab.com/dailypress/RevenueReportQ2_2009.pdf.

[90] Ibid.

[91] Picard, Robert, "Radio Stations Face Significant Strategic Challenges," September 3, 2009. http://themediabusiness.blogspot.com/feeds/posts/default.

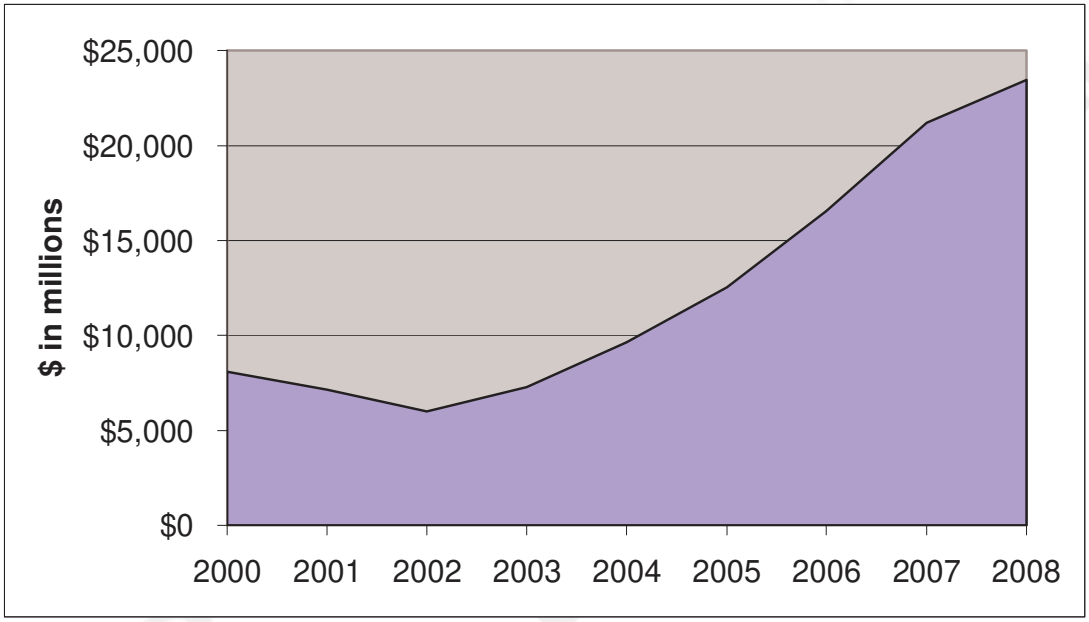
[92] Television Bureau of Advertising, "Total Broadcast Television Revenues Were Down 12.8% in Second Quarter," press release, August 28, 2009. http://www.tvb.org/nav/build_frameset.aspx.

[93] Chmielewski, Dawn C. and Meg James, "Will Hulu make you pay to watch?," *Los Angeles Times*, October 5, 2009. (continued...)

Ad Prices/Advertising Strategies

In some ways, the digital world is very similar to the traditional ad market. Newspaper and magazine websites run display ads that are placed along the sides or across the top of websites, in much the same way ads are posted in a physical magazine or newspaper. Radio and television websites impose audio and video ads in the midst of online programming, as in conventional broadcasts. Many ad prices are quoted in cost per thousand viewers or readers, like in traditional media.

Figure 4. Internet Advertising Revenues 2000-2008



Source: Interactive Advertising Bureau and Price Waterhouse Coopers.

Notes: Internet advertising revenues were $10.9 billion in the first half of 2009.

But in a number of vital ways, the markets are far different. One example is competition. A print newspaper may be the dominant source of information in its local market, but on the Internet that same newspaper is up against hundreds or thousands of websites, bloggers and Twitterers offering general news, information and opinion. The huge supply has made it tougher for media outlets, and other ad-dependent businesses, to charge premium prices online unless they have reached major scale, can sell unique content or have a desirable market niche/demographic.

Another difference is the fact that despite the multitude of websites and other digital locations, the online advertising market is compressed, with just the top 10 companies accounting for 71% of ad spending in the first half of 2009 and the top 50 for 89% of all online advertising.[94]

(...continued)

http://www.latimes.com/business/la-fi-ct-hulu5-2009oct05,0,980649.story.

[94] IAB, "Internet Ad Revenues at $10.9 Billion for First Half of 2009," press release, October 5, 2009

Benjamin Edelman, an assistant professor at Harvard University, has proposed a Bill of Rights for Advertisers, saying the concentrated market places them at a clear disadvantage.[95] Edelman says large ad companies should be more transparent about ad placement and pricing, advertisers should have easy access to data about where ads are placed, more detailed billing information and more control over the use of data generated by search advertising."[96] "It's a very high burden for the advertiser to figure it all out," Edelman says.

Measurability

One major difference between established and emerging markets is the development of more advanced tools to quantify consumer response. Advertisers for decades have used various measurements to determine where to place ads and to glean insight into consumer response. Nielsen offers data on television viewership through consumer panels and special measurement devices. Arbitron Inc. is a leader in radio audience measurement. The Audit Bureau of Circulations measures sales of newspapers. Companies may supplement these audience measurements with other qualitative research on consumer demographics and behavior, as well as separate surveys designed to measure return on investment.

In the digital world, advertisers have access to faster, more granular measurements. Digital advertisers can count the number of people who click on an ad, forward an email or view a video. "One of the primary benefits of digital advertising is that it lends itself to quantitative analysis. Companies can easily track ad impressions, click-throughs, unique visits and time spent on each page. Drawbacks of online advertising are that … many consumers ignore passive ads, in part because they often had no relevance to what the consumer was viewing," according to an advertising case study published by Dartmouth's Tuck School of Business.[97]

Most online ads are sold on the basis of consumer response. According to the IAB, 38% of online ads sold in the second quarter of 2009 were priced on cost per impression (the number of times viewers saw an ad), with 58% sold on a performance-based model such as cost per click.[98] The rest were sold on a hybrid basis.

There are questions as to the accuracy of such metrics. comScore, a leading U.S. firm measuring consumer digital behavior by tracking behavior of a million U.S. consumer volunteers, says only about 16% of Internet users clicked on an ad in March 2009, and just 8% of Internet users accounted for nearly 85% of all clicks.[99] "Today, marketers who attempt to optimize their advertising campaigns solely around the click are assigning no value to the 84% of Internet users who don't click on an ad. That's precisely the wrong thing to do," the company said in a press

[95] Edelman, Benjamin, *Towards a Bill of Rights for Online Advertisers*, September 21, 2009. http://www.benedelman.org/advertisersrights/

[96] Ibid.

[97] Martin, Ashley, *Nolej Studios: Growing a Creativity-Based Business*, Tuck School of Business at Dartmouth University, Case #6-0028, May 5, 2008.

[98] Interactive Advertising Bureau, *IAB Internet Advertising Revenue Report*, March 2009, p. 8. http://www.iab.net/media/file/IAB_PwC_2008_full_year.pdf

[99] comScore, "comScore and Starcom USA Release Updated 'Natural Born Clickers' Study Showing 50 Percent Drop in Number of U.S. Internet Users Who Click on Display Ads," press release, October 1, 2009. comScore also has 1 million consumer panelists abroad.

release.[100] Another ongoing problem is click fraud, a practice whereby companies or individuals manipulate the numbers to make ads look more popular or to draw clicks to their websites and away from competitors.[101]

Whatever the imperfections, the new gauges have pushed other media toward more finely tuned measurement tools. For example, technology company TRAnalytics has developed a measurement system that will combine information from monitoring devices placed atop televisions, household purchase data gleaned from scanners in stores and from advertisers, and demographic data.[102] Other firms are trying to go beyond clicks to things such as "dwell time"—the amount of time a consumer spends with a promotion including watching video, expanding the size of an ad or forwarding it to friends.[103]

Search/Ad Networks

A vexing challenge for advertisers is how to best find potential customers in the large, but atomized, digital world. Search advertising has emerged as the main answer. Search, which did not exist a decade ago, now has about 4% of the overall ad market and accounted for 47% of the digital ad market in the second quarter of 2009.[104] In the search model, advertisers bid for certain key words such as "Aruba vacation." If they win, their ad is displayed on a Web page when search results are listed. Advertisers generally pay only if a consumer clicks on their ad.

The advantage of search is that it allows advertisers to target individual consumers who are actively looking for a certain product or service. Using data generated by searches, advertisers can further refine ad campaigns to deliver additional, relevant ads to individuals based on their previous searches. Google had 64% of the search market in August 2009, according to comScore,[105] but faces new challenges after a July 2009 announcement by Microsoft and Yahoo that they have formed a partnership on Internet search, under which Yahoo will use Microsoft's Bing search engine.[106]

As search has become more prominent, it has spawned a cottage industry of analysts and media buyers who help businesses navigate the online auction system.[107] One strategy, search optimization, describes the practice of companies configuring their websites to have the attributes

[100] Ibid.

[101] Sullivan, Laurie, "Study: Half of Ad Impressions, 95% Of Clicks Fraudulent," *MediaPost News*, September 17, 2009. http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=113734.

[102] Hamp, Andrew, "Media Companies Roll Out Efforts to Improve Audience Measurement," *Advertising Age*, August 26, 2009.

[103] eMarketer, "How Much Time People Really Spend with Ads," August 24, 2009. http://www.emarketer.com/Article.aspx?R=1007241.

[104] PricewaterHouse Coopers and Interactive Advertising Bureau, *IAB Advertising Revenue Report*, *2009 Second Quarter and First Six Months Results*, October 2009, p.2. http://www.iab.net/media/file/IAB-Ad-Revenue-Six-month-2009.pdf.

[105] comScore, "comScore releases August 2009 U.S. Search Engine Ratings," press release, September 22, 2009. http://www.comscore.com/Press_Events/Press_Releases/2009/9/comScore_Releases_August_2009_U.S._Search_Engine_Rankings.

[106] *Associated Press,* "Microsoft, Yahoo Announce Search Deal," July 29, 2009. http://www.msnbc.msn.com/id/32193887/ns/business-us_business/.

[107] Levy, Steven, "Secret of Googlenomics: Data-Filled Recipe Brews Profitability," *Wired*, May 22, 2009. http://www.wired.com/culture/culturereviews/magazine/17-06/nep_googlenomics?currentPage=all.

search engines are programmed to seek, giving them a better chance of appearing in an organic list of search results. To accomplish this, consulting firms try to figure out the algorithms large search firms use in their auctions.[108]

Ad Networks

Companies also are using smaller ad networks or ad brokers to place their advertisements across the Web and digital platforms. Some established companies say such tactics affect prices for all ad-dependent companies because ad networks buy up blocks of residual or less attractive ads and release them on the market at fire-sale prices. The Online Publishers Association, a coalition of media and entertainment companies with an digital presence such as the *Wall Street Journal*, *New York Time*s and *ESPN.com*, in August released a study arguing that ads sold via brokers were less effective than ads sold directly on their websites—for which they can charge higher prices.[109] But many prominent media companies that use ad networks to sell as least part of their own inventory that they cannot sell directly. Ad networks are also an important tool for small, mom and pop-type Web ventures to sell ads.

Behavioral Advertising

As they browse the web, blog, join social networks and play online games, consumers are providing advertisers with reams of data. Advertisers and marketing firms can generate still more information when consumers sign up for email promotions or buy products online. Behavioral advertising firm Tacoda (purchased in 2007 by America On Line) "has more than 4,500 sites, collects more than 135 million individual behaviors 50 times each month and has segmented the online audience into behavioral buckets," according to a report by Booz & Co., for a coalition of advertising organizations.[110]

Most online activity is monitored via cookies, small text files that can store data, which are placed on that user's computer when he or she visits a website. The information can be used to create behavioral advertising—targeted ads based on individual information. Behavioral advertising was estimated at $775 million in 2008 and is expected reach to $4.4 billion by 2012.[111]

A coalition of consumer groups has called for limits on the practice.[112] Congress and federal regulators are considering whether such tactics raise privacy concerns. The Progress and Freedom Foundation says tough Internet privacy standards could impede the growth of behavioral

[108] Interview with Keystroke Marketing, a Pennsylvania Internet marketing firm. September, 2009.

[109] Online Publishers Association, "OPA Members' High-Quality Content Environments Raise Awareness, Message Association, Brand Favorability and Purchase Intent More than Portals and Ad Networks," press release, August 13, 2009. http://www.online-publishers.org/newsletter.php?newsType=pr&newsId=545.

[110] Landry, Edward, Carol Ude, and Christopher Vollmer, *HD Marketing 2010: Sharpening the Conversation*, Booz& Co., Association of National Advertisers, Interactive Advertising Bureau and the American Association of Advertising Agencies, 2009, p. 7.

[111] Hallerman, David, "Behavioral Targeting: Marketing Trends," eMarketer, June 2008 http://www.emarketer.com/Reports/All/Emarketer_2000487.aspx.

[112] Eggerton, John, "Consumer Groups Want Constraints on Online Behavioral Advertising," *Broadcasting & Cable*, September 1, 2009. http://www.broadcastingcable.com/article/339171-Consumer_Groups_Want_Constraints_on_Online_Behavioral_Advertising.php.

advertising and hurt media companies, for example.[113] Newspaper chain McClatchy Co. announced in its second quarter 2009 earnings report that it had increased online ad rates by using behavioral targeting.[114]

Ad Platforms

Another difference in the digital world, as opposed to traditional media, is that consumers are creating much of the content, through social networks, blogs or filming and posting homemade videos on sites like YouTube. Some experts say consumers are exercising more control over what they see, watch or hear. They can time television programs with digital recording devices, and fast forward through ads. Some ads are repressed by pop-up blockers or spam filters.

There is debate about whether advertisers are at disadvantage in the emerging digital world. In a widely discussed essay this spring Eric Clemons, professor of operations and information management at the University of Pennsylvania's Wharton School of Business, argued that consumers are in control in the digital sphere and will not accept unwanted or unneeded advertising. "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," Clemons wrote.[115]

Others say the concerns are overstated. While the change initially may be jarring, the Web opens myriad possibilities, including the ability to carry on a dialogue with consumers. "Old structures and ways of working persist, but are fundamentally challenged by newer, more dynamic more innovative alternatives. Numerous developments have brought the industry to this transition point. Consumers have more control and choice. Their media usage has fragmented. Many more advertising platforms exist. And marketers are insisting on greater precision in … targeting and accounting for their ad spend," according to a *Digital Darwinism* report by the IAB.[116]

[113] Szoka, Berin and Mark Adams, *The Benefits of Online Advertising & Costs of Privacy Regulation*, Progress and Freedom Foundation Working Paper, July 10, 2009.

[114] McClatchy Company Second Quarter 2009 Earnings Call Transcript, July 21, 2009. http://74.125.95.132/search?q=cache:jvOwJ2PrGhcJ:www.bnet.com/2462-14052_23-323057.html+mcclatchy+co+second+quarter+earnings+report+2009+behavioral+advertising&cd=2&hl=en&ct=clnk&gl=us.

[115] Clemons, Eric, "Why Advertising is Failing on the Internet," *TechCrunch*, March 22, 2009. http://www.techcrunch.com/2009/03/22/why-advertising-is-failing-on-the-internet/.

[116] Vollmer, Christopher, *Digital Darwinism*, a joint report by Booz & Company, Association of National Advertisers, Interactive Advertising Bureau, and American Association of Advertising Agencies, July 9, 2009, p. 4 . http://www.booz.com/global/home/what_we_think/reports_and_white_papers/ic-display/46079566.

Table 3. Projected Growth in U.S. Interactive Ad Revenues, 2009-2014

Dollar amounts in millions

	2009	2010	2011	2012	2013	2014	CAGR[a]
Mobile Marketing	$391	$561	$748	$950	$1,131	$1,274	27%
Social Media	$716	$935	$1,217	$1,649	$2,254	$3,113	34%
Email Marketing	$1,248	$1,355	$1,504	$1,676	$1,867	$2,081	11%
Display Advertising	$7,829	$8,395	$9,846	$11,732	$14,339	$16,900	17%
Search Marketing	$15,393	$17,765	$20,763	$24,299	$27,786	$31,588	15%
Total	$25,577	$29,012	$34,077	$40,306	$47,378	$54,956	17%
Percent of Total Ad Spending	12%	13%	15%	17%	19%	21%	

Source: Forrester Research Interactive Models 4/09 and 10/08 (US only)

a. Compound Annual Growth Rate.

Advertisers are going after digital consumers where they live: online. Among the emerging platforms:

- Mobile—Use of touchscreen phones, such as the IPhone, as well as other advanced mobile phones, is expanding rapidly. U.S. touchscreen phone use alone grew 159% from August 2008 to August 2009 to 23.8 million units.[117] Other mobile options include hand-held reader devices. Research firm eMarketer expects U.S. mobile ad spending to rise from $648 million in 2008 to more than $3 billion by 2013.[118] Text messages are the main form of advertising on mobile phones, but that is expected to change as technology advances. One emerging example is "quick response" codes—a type of bar code placed on advertisements, department store displays, restaurant menus and other material that can be scanned with a cell phone or other mobile device. Consumers can use the codes to download coupons, offers, ads or other information related to a specific product.[119] Such codes are already being used with airline tickets, for example. iPhone-type applications are growing, including those produced by companies as marketing and sales tools. More than 2 billion iPhone applications had been downloaded as of September 2009, according to Apple.[120]

[117] comScore, "Touchscreen Mobile Phone Adoption Grows at Blistering Pace in U.S. During Past Year," press release, November 3, 2009. http://www.comscore.com/Press_Events/Press_Releases/2009/11/Touchscreen_Mobile_Phone_Adoption_Grows_at_Blistering_Pace_in_U.S._During_Past_Year.

[118] eMarketer, *Mobile Advertising and Usage*, April 2009. http://mobimatter.files.wordpress.com/2009/05/emarketer_mobile_advertising_and_usage.pdf.

[119] Federal Trade Commission Staff Report, *Beyond Voice, Mapping the Mobile Marketplace*, April 2009, p. 24. http://www.adlawbyrequest.com/uploads/file/2009_04%20FTC%20Report%20-%20Mobile%20Marketplace.pdf.

[120] Apple Inc., "Apple's App Store Downloads Top Two Billion," press release, September 28, 2009. http://www.apple.com/pr/library/2009/09/28appstore.html.

- **Social networks**—Social arenas include sites or networks such as Facebook and MySpace. Two-thirds of Internet consumers worldwide visit a social network or blogging site, and the segment accounts for nearly 10% of all time spent on the Internet—making it the fourth most popular Internet activity.[121] Some big companies have developed successful Facebook pages with more than a million fans. But advertisers have yet to really crack the market. Paid advertising on social networks is expected to decline by 3% in 2009 partly due to the recession. Ad spending at such sites is forecast to rise from $1.1 billion in 2009 to $1.4 billion by 2011.[122] Other forecasts peg spending on social networks somewhat higher. On social networks "members have a greater sense of 'ownership' around the personal content they provide and are less inclined to accept advertising around it. A well-used analogy is that advertising on a social network is like gate-crashing a party," according to Nielsen.[123]
- **Gaming**—About two-thirds of American households have at least one family member who plays video or online games, according to the Entertainment Software Association, 40% of them women.[124] Advertisers are trying to reach these consumers by running ads before games on online sites or embedding their ads into the games—such as on billboards that line the roads in car racing games. The Lifetime Channel, a cable television channel with programming aimed at women, has an website with applications including games. Called "Games Women Play" the selections include "Create a Mall" and "Fashion Solitaire."[125]
- **Website Marketing**—Businesses are building in-house promotion and marketing capabilities. Typical of the emphasis on consumer interaction, Kraft Foods provides weekly recipes via email, runs a website that offers promotions to win free prizes or donate to needy families, online videos from guest bloggers and links to YouTube, and chat boards where consumers can swap recipes and talk about issues like kids and cooking or entertaining.[126] Kraft has Internet games for children based on products such as its Nabisco brand Corn Nuts cereal.
- **Video**—More than a third of Internet users recently watched a TV show or movie online, compared to 16% who did so in 2007. In addition, 62% of adult Internet users said they recently watched a video on a site like YouTube or Google Video.[127] Advertisers initially struggled to figure out how to sell ads against consumer-generated content, but have recently made inroads. Google has reached a deal with Time Warner to display content from cable stations CNN and TNT.[128]

[121] Nielsen Company, *Global Faces and Networked Places*, March 2009, p 1. http://blog.nielsen.com/nielsenwire/wp-content/uploads/2009/03/nielsen_globalfaces_mar09.pdf.

[122] eMarketer , "Social Network Ad Spending: A Brighter Outlook Next Year," July 2009.

[123] Nielsen Company, *Global Faces and Networked Places*, March 2009, p 5. http://blog.nielsen.com/nielsenwire/wp-content/uploads/2009/03/nielsen_globalfaces_mar09.pdf.

[124] Chang, Rita, "Game Advertising Goes Mainstream," *Advertising Age*, July 13, 2009; Entertainment Software Association, "Industry Facts." http://www.theesa.com/facts/index.asp.

[125] http://www.mylifetime.com/games/download/fashion-solitaire.aspx.

[126] http://www.Kraftfoods.com.

[127] Madden, Mary, *The Audience for Online Video Shoots Up*, Pew Internet and American Life Project, July 2009. http://www.pewinternet.org/~/media//Files/Reports/2009/The-Audience-for-Online-Video-Sharing-Sites-Shoots-Up.pdf.

[128] Helft, Miguel, "YouTube in a Deal to Show Clips from CNN and TNT," *New York Times*, Aug 19, 2009.

YouTube is experimenting with running ads on popular videos, with the creators' consent. Another advertising strategy associated with video is viral ads—videos and other promotions that gain an audience through online word of mouth. *Advertising Age* magazine runs a monthly list of the top 10 viral ads.[129]

Advertising Regulation

Given the persuasive power of the ad industry, Congress and the courts have regulated advertising to protect consumers and ensure fair competition. U.S. laws govern, among other things, alcohol advertising, tobacco advertising, advertising by mail, advertising by telephone and commercial email or spam.[130]

In addition to Congress, the advertising industry is monitored by a variety of federal agencies.

- The Food and Drug Administration is charged with ensuring that certain product claims are truthful and detail the possible side effects of major drugs. The agency enforces the Federal Food, Drug and Cosmetic Act, looks at food package labeling and health claims.
- The Federal Trade Commission (FTC) is the main regulator of products sold in interstate commerce, and is charged with protecting consumers from claims that are misleading or unfair. The FTC is currently looking at issues including Internet privacy, as businesses and marketers develop sophisticated tools for tracking consumer information.
- The Federal Communications Commission (FCC) is an independent agency that regulates radio, television, telephone, satellite and cable television and the Internet. The FCC is looking at the growing use of product placement, or embedded advertising, in programming and is taking a new look at children and the digital media landscape.[131]

Self Regulation

The advertising industry has its own, parallel regulatory structure. The National Advertising Review Council (Council) was formed in 1971 as alliance by the Association of National Advertisers, the American Association of Advertising Agencies, the American Advertising Federation and the Council of Better Business Bureaus. The Council seeks to ensure that adverting is factual and accurate through a compliance system that includes recommendations for corrective actions and an internal appeals process.[132]

[129] http://adage.com/rss-feed?section_id=674.

[130] CRS Report RL32177, *Federal Advertising Law: An Overview*, by Henry Cohen. For more information on Supreme Court regulation of commercial speech, see CRS Report 95-815, *Freedom of Speech and Press: Exceptions to the First Amendment*, by Henry Cohen.

[131] Federal Communications Commission, "FCC Releases Notice of Inquiry on Serving and Protecting Children and Empowering Parents In and Evolving Media Landscape," press release, October 23, 2009. http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-294197A1.pdf.

[132] National Advertising Review Council. The Direct Marketing Association, Electronic Retailing Association and Interactive Advertising Bureau also joined in 2008. http://www.narcpartners.org/about/partners.aspx.

The Council also sets policies for the National Advertising Division (NAD) of the Council of Better Business Bureaus and the Children's Advertising Review Union (CARU). The bodies look into specific complaints regarding possibly inaccurate product claims, and more general questions about whether certain advertising is appropriate, particularly for children.[133] The Council is overseeing an initiative, for example, to promote healthier food and beverage choices in advertising aimed at children, an initiative on electronic advertising, and a set of principles for online behavioral advertising.

The Interactive Advertising Bureau (IAB), founded in 1996, has been developing rules of the road for emerging online businesses and advertisers. The organization is a coalition of more than 375 media and technology companies that sell nearly 90% of all U.S. online advertising. The IAB includes such firms as Google, Disney, The New York Times, Yahoo, and Microsoft.

One of the IAB's self-described goals is to fend off intrusive legislation. In that vein, it worked with other advertising organizations to craft voluntary guidelines for behavioral advertising, which were released in the summer of 2009.[134] The IAB has also set guidelines for advertising in social media like Facebook and on mobile platforms, such as cell phones, I-phones and hand-held readers. It has tried to standardize online advertising, issuing definitions for terms like "click" and "impression" as well as ad sizes and use of techniques such as pop-up ads.[135]

Pending Regulation and Oversight

Regulators and lawmakers are trying to keep up with an emerging world in which "mommy bloggers" move merchandise, children are exposed to "gamevertising" designed to sell breakfast cereal, and corporations are nesting in social networks. Add to that the rise of embedded advertising—Coca Cola paying to have American Idol judges drink its products on stage[136] and companies striking deals to have their products written into scripts for television sitcoms, for example—and some critics worry that advertising is becoming both more pervasive and more difficult to distinguish from other content. Consumer groups argue that greater scrutiny is needed to prevent abuse.

"In 50 years, we've gone from loosely regulated advertising based on the art of persuasion, to more regulated, perfectly legal and often spectacular ads based on the art of engagement, to anything goes," author and former advertising executive James Othmer recently wrote in the *Washington Post*. "As a result, it is increasingly difficult to determine what is authentic."[137]

The changing market structure and tactics have prompted scrutiny from consumer groups, lawmakers and regulators.[138] In a reflection of the industry outlook *Advertising Age* magazine in a

[133] Ibid.

[134] Interactive Advertising Bureau, "Key Trade Groups Release Comprehensive Privacy Principles for Use and Collection of Behavioral Data in Online Advertising," press release, July 2, 2009. http://www.iab.net/about_the_iab/recent_press_releases/press_release_archive/press_release/pr-070209.

[135] Interactive Advertising Bureau. http://www.iab.net/about_the_iab.

[136] Barker, Andrew, "Advertisers Starting to Embrace DVR," *Variety*, March 27, 2009. http://www.variety.com/article/VR1118001776.html?categoryid=3579&cs=1.

[137] Othmer, James, "Skip Past the Ads But You're Still Being Sold," *Washington Post*, August 16, 2009. http://www.washingtonpost.com/wp-dyn/content/article/2009/08/14/AR2009081401629.html.

[138] Chester, Jeff, Executive Director, Center for Digital Democracy, "Testimony on Behavioral Advertising: Industry (continued...)

recent article tallied up pending legislative and regulatory proposals and declared that the advertising and marketing sector had become "an unpopular and easy target ripe for regulation."[139]

On the legislative front, Representative Boucher, chairman of the House Energy and Commerce subcommittee on Communications, Technology, and the Internet, has announced plans to introduce legislation setting tighter standards for online privacy.[140] "Because consumers need an assured level of control over the collection, use and sharing of information about them, a statute providing those assurances is now called for," Boucher wrote in a recent op-ed in *The Hill* newspaper.[141] The legislation comes amid signs of consumer concern about behavioral advertising, including a recent study by the University of Pennsylvania and University of California, Berkeley that said two-thirds of Americans object to online tracking by advertisers.[142]

Senator Al Franken has introduced S. 1763 to repeal tax exemptions for pharmaceutical advertising to consumers and marketing to health care providers.[143] The move comes as companies are looking to sell pharmaceutical products in new venues, such as mobile phone applications.[144]

On the regulatory front, the FDA plans November hearings on the rise of pharmaceutical advertising on the Internet, including in social networks.[145] The FTC on October 5, 2009 issued updated guidelines for testimonials and endorsements, updating a policy altered in 1980. As part of the change, the FTC said that bloggers who make a product endorsement must disclose any material connections with the seller of the product or service.[146] The online advertising industry in an October 15, 2009 letter to the FTC asked that the guidance be rescinded, saying it would "unfairly and unconstitutionally impose penalties on online media for practices in which offline media have engaged for decades."[147]

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Practices and Consumers' Expectations," House Committee on Energy and Commerce, Subcommittee on Commerce, Trade and Consumer Protection and the Subcommittee on Communications, Technology, and the Internet, June 18, 2009. http://www.democraticmedia.org/doc/cdd-testimony-20090618.

[139] Ives, Nat and Rich Thomaselli, "Marketing Takes a Beating in the Beltway," *Advertising Age,* July 27, 2009.

[140] Clifford, Stephanie, "Two-Thirds of Americans Object to Online Tracking," *New York Times*, September 29, 2009. http://www.nytimes.com/2009/09/30/business/media/30adco.html?ref=business.

[141] Boucher, Rick, "Behavioral Ads: The need for privacy protection," *The Hill*, September 24, 2009. http://thehill.com/special-reports/technology-september-2009/60253-behavioral-ads-the-need-for-privacy-protection#.

[142] Turow, Joseph, Jennifer King, Chris Jay Hoofnagle, Amy Bleakley, and Michael Hennessey, *Americans Reject Tailored Advertising and Three Activities that Enable It*. SSRN: http://ssrn.com/abstract=1478214.

[143] Sen. Al Franken, "Franken Introduces Bill to EndTax Breaks for Drug Company Advertising," press release, October 8, 2009. http://franken.senate.gov/press/?page=release&release_item=Franken_Introduces_Bill_to_End_Tax_Breaks_for_Druge_Company_Advertising.

[144] Thomaselli, Rich, "Need to Check Your Cholesterol? There will be an App for That?" *Advertising Age*, June 1, 2009.

[145] Food and Drug Administration Docket FDA-2009-N-0441, "Promotion of Food and Drug Administration-Regulated Medical Products using the Internet and Social Media Tools; Notice of Public Hearing," *Federal Register*, September 21, 2009. http://edocket.access.gpo.gov/2009/E9-22618.htm.

[146] Federal Trade Commission, 16 C.F.R. Part 255, *Guides Concerning the Use of Endorsements and Testimonials in Advertising*. http://www.ftc.gov/os/2008/11/P034520endorsementguides.pdf.

[147] Interactive Advertising Bureau, "IAB Calls on FTC to Rescind Blogger Rules; Questions Constitutionality," press release, October 15, 2009. http://www.iab.net/about_the_iab/recent_press_releases/press_release_archive/
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The FDA in the spring of 2009 warned 14 large pharmaceutical firms that their Internet search ads were misleading because they did not include required information about potential risks of the products. The FDA now plans hearings on drug marketing online, including in social networks.[148] In addition, the FTC plans a December forum on the financial viability of media in the Internet age.[149]

The advertising industry is trying to ward off new regulation, saying it has moved aggressively with self regulation, including its recent guidelines on behavioral advertising. A group of the nation's largest online advertising firms formed the Network Advertising Initiative to argue against heavy regulation. The IAB also commissioned a study on the economic impacts of the Internet to underscore the case that digital commerce is vital to the nation's overall well-being.[150]

Whatever the outcome of the current initiatives, dramatic changes in the delivery of news, entertainment, and advertising are likely to continue, creating complex questions for lawmakers and regulators regarding consumer privacy, competition, and free speech. Media and cultural critic Marshall McLuhan in the 1960s argued that each new medium has its own intrinsic effect, changing the nature of society and commerce. Four decades later, technological advances are forcing media companies and advertisers to refine and reshape their messages to reach consumers in new venues, from mobile phones to handheld readers to online gaming networks. The developing forms of communication are, in turn, influencing the content of advertising as companies attempt to become part of the conversation on social networks or part of the landscape by embedding products in news and entertainment programming. Consumers must figure out how to determine the value and veracity of advertising and media, as regulators determine how to craft a workable oversight system that stretches beyond advertising on traditional media, to the rapidly expanding digital world.

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[148] Food and Drug Administration, "Promotion of Food and Drug Administration-Regulated Medical Products Using the Internet and Social Media Tools; Notice of Public Hearing," *Federal Register* notice, September 21, 2009. http://edocket.access.gpo.gov/2009/E9-22618.htm.

[149]Federal Trade Commission, "Extra! Extra! FTC Announces Revised Schedule for Workshop: From Town Criers to Bloggers; How Will Journalism Survive the Internet Age," press release. http://www.ftc.gov/opa/2009/08/news2009.shtm.

[150] Hamilton Consultants, John Deighton, and John Quelch, Harvard Business School, *Economic Value of the Advertising-Supported Internet Ecosystem*, Interactive Advertising Bureau, June 10, 2009. http://www.iab.net/media/file/Economic-Value-Report.pdf.