



## **A Brief History of Online Advertising**

With all the enthusiasm now surrounding electronic commerce, it's easy to forget that only five years ago one of the biggest debates in the wired world was whether commercial activity should be allowed on the Internet at all. At the time, the Internet had just begun to register on most people's radar screens, thanks largely to the advent of the World Wide Web, whose multimedia capabilities promised new vistas for anyone seeking entertainment and information beyond their television set. With the help of a newly developed software category, called browsers, the Internet was launched from research centers and military installations into mainstream culture.

In the half-decade between the pioneering efforts of Tim Berners-Lee and the proliferation of dot-com companies, the Internet has become a mecca for all kinds of commercial activity. Subscription-based online newsletters, catalog Web sites, pay-per-view homepages and custom-order computer shops all now occupy a significant amount of bandwidth in the new, Net-based economy.

To support these efforts and further the use of the Internet as a commercial medium, corporations, ad agencies - even the U.S. Government - have invested large amounts of time and money into developing online advertising models that leverage the benefits of interactivity. Since the first ad appeared on HotWired in September 1994, ad agencies, corporations and content providers have been grappling with how to make the most of the medium.

More recently, trade groups such as the Internet Advertising Bureau (IAB) and the Future of Advertising Stakeholders (FAST) have worked to define common standards for measuring the effectiveness of online ads in order to promote interactive marketing to companies wanting a yardstick for ROI (return on investment).

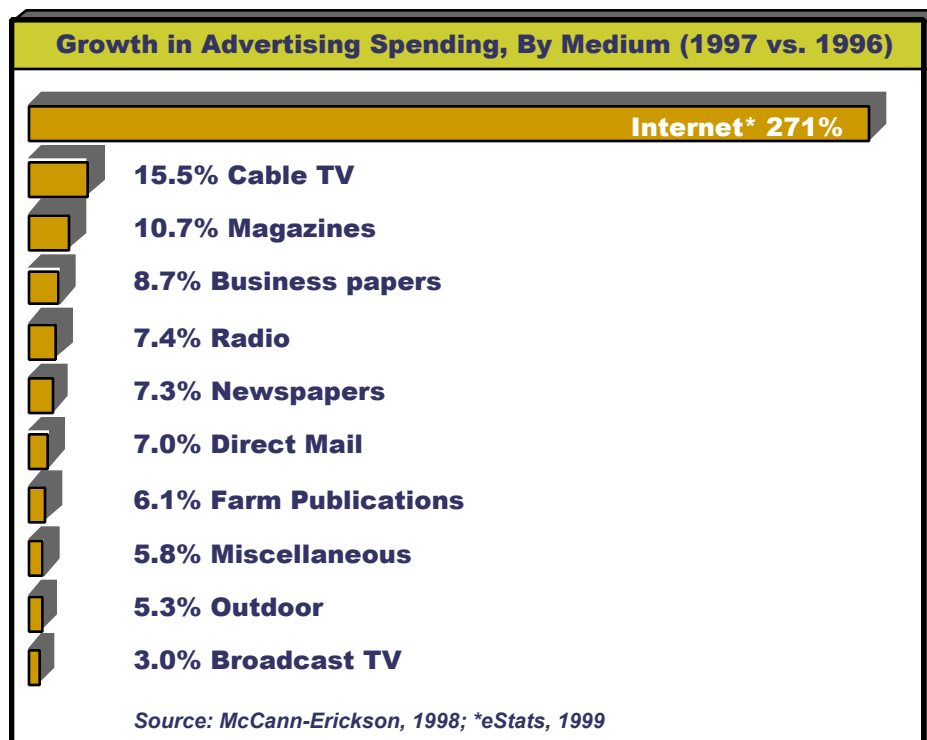
As a result of all this Internet introspection, a wealth of data exists on the growing importance of online commerce and interactive marketing. In the following pages, AdRelevance has culled facts and figures from leading research firms and publications to help illustrate recent trends.

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## Cheat Sheet

### Who's advertising on the Web?

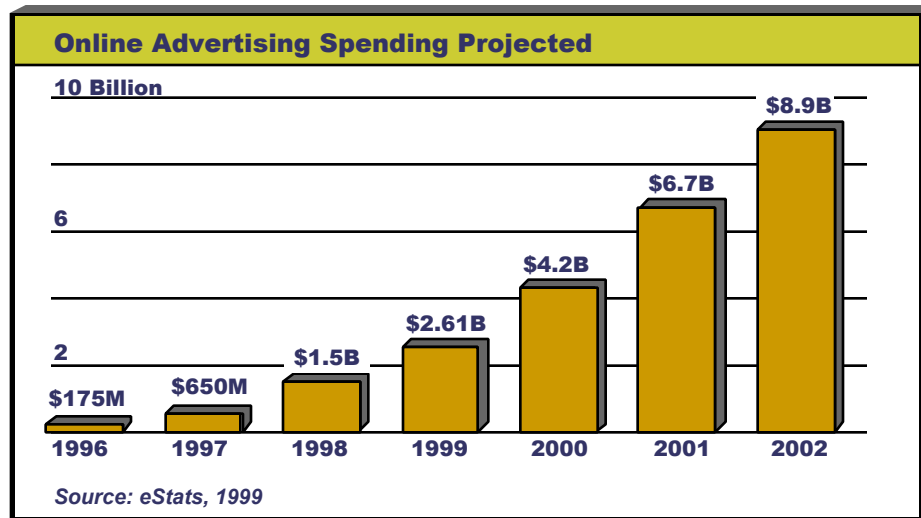
- Online advertising revenues hit \$1.92 billion in 1998, more than double the \$907 million spent in 1997.<sup>1</sup>
- Total online ad revenues in 1998 surpassed the \$1.58 billion spent on outdoor advertising the same year.<sup>1</sup>



- Many large corporations are using the Internet to advertise their products. For example, Procter and Gamble now advertises 30 brands online - three times as many as it did only a year ago.<sup>2</sup>
- Analysts predict that online ad spending by U.S. companies will increase to \$2.6 billion by year-end 1999 and \$8.9 billion by 2002.<sup>3</sup>

### Where are ad dollars coming from and where are they going?

- The concentration of companies placing online ads is becoming more spread out. In 1996, the top 25 advertisers accounted for nearly 40 percent of all Web-based ad spending. But by 1998, the top 25 accounted for only 24 percent.<sup>4</sup>
- According to Forrester Research, 70 percent of advertisers spent less than \$1 million on Web advertising in 1997. By 2001, the same percentage is expected to spend more than \$1 million each.



- Over the next few years, an increasing percentage of online ad dollars is expected to go to highly targeted "vertical" Web sites oriented to a particular audience. Although broad portal sites attracted 59 percent of all Web advertising in 1998, Forrester predicts that by the year 2002, portals will garner only 30 percent of online ad revenue.

- Based on previous distributions of online ad spending, Web publishers and content providers are expected to attract ad revenues in 1999 according to the following breakdown:<sup>4</sup>

Portals (e.g., AOL, Yahoo, Excite) - 49 percent  
 Niche content sites (e.g., PC World, c|net) - 20 percent  
 General content providers (e.g., WSJ, Forbes) - 18 percent  
 Other - 13 percent

<b>IAB: Web Ad Spending by Industry Category</b>				
<b>(Percentages Are Based on Total Spending)</b>				
<b>Category</b>	<b>FY 1997</b>	<b>Q1 '98</b>	<b>Q2 '98*</b>	<b>Q3 '98*</b>
Consumer-related	31%	24%	N/A	27%
Computing Products/Tech	30%	26%	25%	25%
Financial Services/Bus	18%	13%	21%	16%
Telecom	11%	9%	N/A	11%
New Media	10%	13%	N/A	7%
Search Engines	N/A	N/A	30%	N/A
News/Information	N/A	N/A	10%	N/A
Sports	N/A	N/A	6%	N/A
Entertainment	N/A	N/A	4%	N/A
Other	N/A	15%	4%	15%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*\* In Q2 1998, IAB/PricewaterhouseCoopers temporarily switched to different category description making historical tracking difficult for that quarter. Source: Internet Advertising Bureau, 1998/1999*

- Categories currently leading online ad spending include:<sup>1</sup>

Consumer-related - 29 percent  
 Computing - 20 percent  
 Financial services - 19 percent  
 Telecom - 8 percent  
 New media - 7 percent

- Ad agencies are expanding their interactive marketing and media services in order to provide more resources for their clients.<sup>2</sup> For example, Interpublic, the world's third-largest agency with estimated billings of \$30 billion, recently invested in Stockholm-based Icon Medialab International, the largest independent Internet services and consulting company in Europe.<sup>4</sup>
- Forrester Research predicts that revenues from advertising, subscriptions and transactions fees will grow to \$8.5 billion within five years, or almost 5 percent of the \$175 billion advertisers spent in newspapers, TV, radio, direct mail, billboards and other traditional media in 1996.<sup>5</sup>

### **What standards are in place for online advertisers?**

- The Internet Advertising Bureau (IAB) was founded in 1996 to evaluate and recommend standards and practices, encourage research and educate the advertising industry about the use of online advertising.
- The Future of Advertising Stakeholders (FAST) recently published guidelines for Internet advertisers and publishers on three topics:
  - 1) How to protect consumer privacy;
  - 2) How to create standard size and placements for ads; and
  - 3) How to measure how many people view an ad.
- Both FAST and the IAB aim to establish de facto standards, such as those used in print and broadcast to help advertisers and publishers settle on common methods for creating ads and measuring results.

### **Are there effective ways to measure ROI?**

- Despite increased online ad spending, large corporations are still unsure about how to measure ROI.
- 68 percent of companies surveyed by the Association of National Advertisers said that a "key barrier" to advertising online was an inability to measure return on investment.<sup>2</sup>
- Forrester Research reports that only 16 percent of advertisers are currently satisfied with online ad measurements.

### **What kind of advertising is being viewed online?**

- Banner advertising was the first form to receive widespread acceptance on the Internet. Banner ads are generally understood to be 468 x 60-pixel rectangles displayed horizontally across the screen.<sup>6</sup>
- Banner advertisements continue to be the dominant type of advertising, accounting for 56 percent of online ad revenues. Other formats include sponsorships (30 percent), interstitial (5 percent) and e-mail (1 percent), with a remaining eight percent miscellaneous.<sup>1</sup>
- Although most online ads are simply static displays using GIF, JPEG and HTML technology, a new generation of advertisements are leveraging the interactive nature of the Web by using Java, Shockwave, RealAudio, QuickTime and VRML technologies.

### **How fast is the Web growing?**

- The Internet's pace of adoption eclipses all other technologies that preceded it. Radio was in existence for 38 years before 50 million people tuned in; TV took 13 years to reach that benchmark; and the PC took 16. In contrast, once the Internet was opened to the general public, it crossed the 50-million-user mark in only four years.<sup>7</sup>
- In July 1995, only 10 percent of the ads in BusinessWeek, Fortune, Newsweek and Time contained a URL. By July 1998, the number of ads with a URL had reached 91 percent.<sup>9</sup>
- Since 1994, traffic on the Internet has been doubling every 100 days.<sup>9</sup>
- As of December 1996, about 627,000 Internet domain names had been registered. By the end of 1997, the number of domain names had more than doubled to reach 1.5 million.<sup>10</sup>
- Fewer than 40 million people around the world were connected to the Internet during 1996. By the end of 1997, more than 100 million people were using the Internet. Some experts believe that one billion people will be connected to the Internet by 2005.<sup>5</sup>

### **How have media and content developers adapted to the Web?**

- More than 2,700 newspapers have online businesses. Of that number, more than 60 percent are U.S.-based.<sup>11</sup>
- All but three of the top 50 magazines in the country (as defined by paid circulation) had a Web presence as of January 1998.<sup>12</sup>
- More than 800 TV stations across the United States have Web sites.<sup>13</sup>
- Nearly 90 percent of Web users go online to get news and information, finding everything from limited-edition journals to top-selling, mass market magazines.<sup>14</sup>
- Recent studies indicate that as use of the Internet increases, television viewing decreases.<sup>15</sup>
- New York-based Find/SVP reported that more than 60 corporations, ranging from Warner Brothers and PacTel to NBC and U.S. West, have launched Web sites with a strong emphasis on local content.<sup>16</sup>

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