# Chapter 5
# Online Advertising

## Learning Objectives

**Upon completion of this chapter, you will be able to:**
1. Describe the objectives of Web advertising and its characteristics.
2. Describe the major advertising methods used on the Web.
3. Describe various online advertising strategies and types of promotions.
4. Describe the issues involved in measuring the success of Web advertising as it relates to different pricing methods.
5. Describe permission marketing, ad management, localization, and other advertising-related issues.
6. Understand the role of intelligent agents in consumer issues and advertising applications.
7. Understand the problem of unsolicited ads and possible solutions.

## Content

Web Advertising Strategy Helps P&G Compete
5.1 Web Advertising
5.2 Advertising Methods
5.3 Advertising Strategies and Promotions
5.4 Economics of Advertising
5.5 Special Advertising Topics
5.6 Software Agents in Customer-Related and Advertising Applications
5.7 Unsolicited Electronic Ads: The Problem and Solutions
Managerial Issues
Real-World Case: Chevron's World of Car Characters

## Answers to Pause/Break Section Review Questions

### Section 5.1 Review Questions

*1.     Define Web advertising and the major terms associated with it.*

Web advertising is the use of the World Wide Web to advertise to customers. Some important terms in Internet advertising include: ad views (the number of times users call-up the page that has a banner on it), button (a small banner link to a Web site), page (an HTML document), click (a tally of each time a visitor clicks on an advertising banner), CPM (the cost per thousand impressions), hit (a request for data from a Web page or file), and visit (a series of requests during one navigation of the Web site).

*2.	Describe the reasons for the growth in Web advertising.*

Advertisers are looking to the Web because it is a viable advertising medium. Individuals may be moving away from other advertising mediums and to the Internet. Additionally, the demographics of individuals who use the Internet are generally more affluent then the population as a whole, making an attractive population to advertise to. Web ads also have the benefit of lower cost, increased richness of format and the ability to personalize.

*3.	List the major characteristics of Web advertising.*

Web advertising can be characterized by its use of Internet technologies to advertise to groups.  Web advertising can be more complex and personalized then off-line advertising.

*4.	Explain the role of ad networks in Web advertising.*

Advertising networks are specialized firms that offer customized Web advertising, such as brokering ads and targeting ads to select groups of consumers.

**Section 5.2 Review Questions**

*1.	Define banner ads and describe their benefits and limitations.*

Banner ads are graphic advertisements displayed on Web pages that link to the advertiser's Web site.  Banner ads are limited by their cost, space for information and customer indifference.

*2.	Describe banner swapping and banner exchanges.*

Banner swapping is an agreement between two companies to display the other's banner ad on its Web site.  Banner exchanges are markets in which companies can trade or exchange placement of banner ads on each other's Web sites.

*3.	Describe the issues surrounding pop-ups and similar ads.*

These ads can be highly effective for advertisers, but many users consider them annoying and intrusive.

*4.	Explain how e-mail is used for advertising.*

It is possible for advertisers to send out large volumes of advertisements contained inside e-mail messages.  This is an effective method of advertising to large groups.  If the advertiser sends a large number of unrequested e-mail solicitations, it is considered spamming, which is considered by some to be illegal/rude.

*5.      Describe advertising via standardized and newspaper-like ads.*

These ads use a consistent and familiar format that can be used in several locations.

*6.      Discuss advertising via URLs and in chat rooms.*

URLs are an excellent method of advertising by providing an easily remembered "home" for a merchant. Chat room advertising can be beneficial if a merchant is supporting or sponsoring a room. Advertising or promoting in a room without permission can be considered spamming.

**Section 5.3 Review Questions**

*1.      Describe the associated ad (text links) strategy.*

This is an advertising strategy that displays a banner ad related to a term entered into a search engine.

*2.      Discuss the process and value of affiliate marketing.*

Affiliate marketing uses another entity to advertise and sell products or services for a commission. The system is most effective in generating a user base for a new site.

*3.      How does the ads-as-a-commodity strategy work?*

With this advertising approach, customers are paid to read ads by the advertisers.

*4.      Describe viral marketing.*

Viral marketing is word-of-mouth marketing by which consumers promote a product or service by telling others about it.

*5.      How are ads customized?*

Advertisements are customized by comparing users' preferences to available products or services. Products or services that fit a user's preference are then used as the ad is displayed/sent.

*6.      List some typical Internet promotions.*

There is a large variety of Internet promotion ideas. Some of the most popular Internet promotions are give-aways and discounts.

*7.  Define admediaries and describe their roles.*

Admediaries third party vendors that conduct promotions, especially large sacle ones.

## Section 5.4 Review Questions

*1.  List the various methods of pricing Internet ads.*

There are several methods to price Internet advertising including: ad views, click-throughs, interactivity and actual purchase.

*2.  Describe the reasons for using payment methods other than CPM payments.*

Using payment methods other than CPM places greater accountability on the hosting Web site and gives the advertiser a cost more closely associated with results.

*3.  Describe the issues related to advertising as a revenue model.*

Advertising is a valid revenue model within reason.  It can be used successfully, but many dot-com businesses that had over emphasized the potential revenue from Web advertising are no longer in business.

*4.  Discuss how Web traffic is measured and audited.*

It is important to analyze and audit Web traffic before advertising begins.  Web traffic can be analyzed through Web server logs and through third-party auditing companies.  Web traffic is measured by the number of individuals that access the Web site over a specified period of time.

## Section 5.5 Review Questions

*1.  Describe permission advertising.*

Permission advertising is a strategy in which customers agree to accept advertising materials.

*2.  What is localization? What are the major issues in localizing Web pages?*

Localization is the process of converting media products developed in one country to a form culturally and linguistically acceptable in countries outside of the original target market.  The major issue with localization is the ability to perform it correctly.

*3.      How is wireless advertising practiced?*

Wireless advertising uses m-commerce and l-commerce technologies to advertise to people using mobile devices.

*4.      What is the importance of ad content?*

Ad content can have a large effect on customer's response and their interest in whatever is being advertised.

## Section 5.6 Review Questions

*1.      List the major types of software (intelligent) agents used in customer-related and advertising applications.*

There are several types of intelligent agents that are used including agents that support need identification, product brokering, merchant brokering and comparison, buyer-seller negotiation, purchase and delivery, and after-sale service and evaluation.

*2.      What role do software agents play in need identification?*

Software agents can be used to help customers recognize their need for a product by providing product stimuli and information.

*3.      How do software agents support product brokering and merchant brokering?*

Agents can support product brokering by identifying specific products that will meet a customer's defined need.  In the same way, agents can be used to identify different merchants that can supply the specific products.

*4.      What are avatars and chatterbots? Why are they used on Web sites?*

An avatar is a computer-animated character that exhibits human-like movements and behaviors.  A chatterbot is a talking animated character.  These agents are used on Web sites to provide a friendly interface and communication method with the merchant.

*5.      What type of support do software agents provide to online auctions?*

Software agents that are used for auctions typically act as auction aggregators, informing customers when and where specific items are being auctioned.

**Review Questions for Section 5.7**

*1.      Why is e-mail spamming spreading so rapidly?*

It is a relatively effective marketing method that has few barriers to entry.

*2.      Why is it difficult to control spamming?*

It can occur from any computer connected to the Internet, and often spammers use multiple servers, and abandon them.

*3.      How can you fight e-mail spamming?*

Student responses will vary – work with ISP, report spamming, etc.

*4.      Describe the Korean solution to spamming.*

A national registration system exists where only those requesting information can be sent it.

*5.      Describe solutions to pop-ups.*

Many solutions exist, but the most common is software that blocks the pop-up.


## Answers to EC Application Case Questions

**EC Application Case 5.1: Targeted Advertising: The DoubleClick Approach**

*1.  How does DoubleClick build dossiers on people?*

The firm builds a dossier by tracking an individual's movements on particular Web sites, as well as pulling information from the Internet browser's cookie file.

*2.      How are ads matched with individual viewers?*

The dossiers are compared to a specified target market and the match of these comparisons is used for the advertising subgroup.

*3.      Why is an advertising network needed?*

They provide the potential ads and places for them to be viewed.

*4.      What role do the "participating sites" play in the DART system?*

The participating sites are key to the system because they provide access to the

customers' browsing habits. These habits are then used as a part of the individual dossier.

**EC Application Case 5.2: Fujitsu Agents for Targeted Advertising in Japan**

*1. Why would customers agree to have a personal profile built on them?*

Customers are paid for their participation in this advertising model.

*2.      What is the role of the software agent in this case?*

The software agent in this case matches merchants and products to individual customers.

# Answers to Discussion Questions

*1.      Compare banner swapping with a banner exchange.*

With banner swapping there is generally an arrangement between two firms for the reciprocal display of banners. With a banner exchange, a third-party firm acts as a broker for banner swapping for a large number of firms and Web sites.

*2.      Explain why third-party audits of Web site traffic are needed.*

Third-party audits of Web site traffic are required because they provide an impartial accounting of the true amount of traffic that Web site receives. Since the owner of a Web site is paid by advertisers based on the site traffic, he has a conflict of interest when preparing site statistics.

*3.      Discuss why banners are popular in Internet advertising.*

Banners are popular in Internet advertising because they provide several advantages to advertisers. Banner ads are clearly displayed on Web sites and are seen often by Internet users. Additionally, banner ads provide a richness of media that is not available off-line.

*4.      Compare and contrast Internet and television advertising.*

Most Internet and television advertising have the possibility of reaching a large market with a very rich advertising message. Both methods can allow the user to be passive in the viewing of the advertisement. Internet advertising is different than television advertising because the total potential market for Internet advertising is still smaller, but Internet advertising allows the user to be more interactive with the advertising itself.

*5.      Discuss the advantages and limitations of listing a company's URL with various search engines.*

Listing a URL with various search engines is an important part of Web advertising because it allows the firm's site to be found through a Web-based search.  However, the large number of current Web sites makes searching more difficult.

*6.      How might a chat room be used for advertising?*

It is possible that marketers may send advertisements to a chat room or participate in the chat room with the intention of marketing the products to the members of a group.

*7.      Compare the use of the click-through pricing method with more interactive approaches to ad pricing.*

The click-through method is one of the simpler ones to use.  Under this method, advertisers are charged based on the number of users that are directly referred from a Web site.  Other more interactive models also exist.  Under these models, Web site owners are paid based on the amount of interaction that referred customers make on the advertiser's Web site, or based on actual purchases from the advertiser's Web site.  These models are more difficult to implement and place a larger amount of responsibility on the Web site owner.  Under these models, the advertiser has a better correlation between revenue from the advertisement and fees paid to the Web site owner.

*8.      Is it ethical for a vendor to enter a chat room operated by a competitor and pose queries?*

Student answers on this qualitative question will vary. Some students will argue that it is unethical because an assumed name is being used.  Some students will argue that it is ethical because the information requested is publicly available.

*9.      Relate Web ads to market research.*

Web ads can be used as a form of market research, determining what type of customer responses based on the ad's design and placement.

*10.     Explain why online ad management is critical.*

Because placement of the ad and the ad itself are often very flexible, it is important to monitor an ad's success and adjust the ad to optimize its use.

*11.     Examine some Web avatars and try to interact with them. Discuss the potential benefits and drawbacks of using avatars as an advertising media.*

Student responses will vary.  Some avatars work well while others don't.  The debate may focus around their usefulness given the present state of their development.

*12.    Explain the advantages of using chatterbots. Are there any disadvantages?*

Chatterbots can help provide personalization and guide users.  They could potentially be annoying to users as well.

*13.    Discuss the advantages and disadvantages of spamming. Should antispamming legislation be developed? How can it be enforced?*

Student answers will vary.  Spamming can be an effective tool that has negative ethical and legal associations.  Students will have a variety of opinions on legislation and enforcement.

*14.    Discuss the benefits of using software agents in marketing and advertising.*

Student answers will vary.


## Internet Exercises
**(Note: URLs may change over time; please check the Internet Exercises on the Turban Web site for possible updates: [www.prenhall.com/turban](www.prenhall.com/turban).)**

*1.    Enter **selfpromotion.com** and find some interesting promotion ideas for the Web.*

Student responses will vary.

*2.    Enter **nativeminds.com** and **extempo.com**. Find information about the "virtual representative" and check demos and customers' stories. Prepare a report that compares the two sites.*

Both of the sites provide software and systems that use software agents to act as virtual customer service representatives.  Both applications use intelligence and business rules to answer individual questions accurately.  Student reports on both sides will vary. Nativeminds.com appears to be focused on businesses, while Extempo.com appears to focus on education and training.

*3.    Enter the Web sites of **ipro.com** and **selfpromotion.com**. What Internet traffic management, Web results, and auditing services are provided? What are the benefits of each service? Find at least one competitor in each category (e.g., netratings.com; observe the "demo"). Compare the services provided and the prices.*

Both companies provide a comprehensive suite of Web site traffic reports and high capabilities.  Additionally, their applications allow for Web mining to create user subsets for advertisers.  Both firms have a complete set of products that appear somewhat similar. Neither firm lists product pricing.  Student reports will vary.

*4.      Investigate the tools available to self-monitor Web sites. What are the major capabilities of these tools? Start with **webarrange.com**, **webtrends.com**, and **doubleclick.com**.*

Student reports will vary.  The majority of software applications in this area provide the capability to monitor access to a Web site and detailed reports on the volume of pages visited, the time and duration of the visits and location of the visitor.

*5.      Enter **hotwired.com** and **espn.com**. Identify all of the advertising methods used on each site. Can you find those that are targeted advertisements? What revenue sources can you find on the ESPN site? (Try to find at least seven.)*

Student reports will vary.

*6.      Compare the advertisements and promotions at **thestreet.com** and **marketwatch.com**. Write a report.*

Student reports will vary.

*7.      Enter **nameprotect.com** and find out if your competitor or a company you know purchased a specific brand name. Summarize your findings.*

Student reports will vary.

*8.      Enter **adweek.com**, **newroads.com**, **wdfm.com**, **ad-tech.com**, **iab.com**, and **adage.com** and find new developments in Internet advertisement. Write a report.*

Student reports will vary.

*9.      Enter **clairol.com** to determine your best hair color. You can upload your own photo to the studio and see how different shades look on you. You can try different hairstyles. It is also for men. How can these activities increase branding? How can they increase sales?*

Student reports will vary.

*10.     Enter **positionagent.com** (part of Microsoft's "bCentral") and ask the Position Agent to rank your Web site or a site with which you are familiar. Assess the benefits versus the costs.*

Student reports will vary.

*11.     What resources do you find to be most useful at **targetonline.com**, **clickz.com**, **admedia.org**, **i-m.com**, and **wdfm.com**?*

Student reports will vary.

*12.        Enter **eat.com**. What kind of advertising methods does the site use? How do these methods increase customer loyalty?*

This is a site for Ragu.  It offers promotions and recipes.

*13.        Enter **doubleclick.com** and examine all of the company's products. Prepare a report.*

Student reports will vary.


## Team Assignments and Role Playing

*1.        As a team, examine the various advertising options offered by m-commerce companies. Start with i-Mode at **nttdocomo.com**. Move on to **nokia.com**, **motorola.com**, and **ericsson.com**. Also check **adage.com** and any other sources you might find. Prepare a report based on your findings.*

Student reports will vary.

*2.        Each team will choose one advertising method and conduct an in-depth investigation of the major players in that part of the ad industry. For example, direct e-mail is relatively inexpensive. Visit **the-dma.org** to learn about direct mail. Then visit **bulletmail.com**, **ezinemanager.com**, **permissiondirect.com**, and **venturedirect.com**. Each team will prepare and present an argument as to why its method is superior.*

Student reports will vary.

*3.        In this exercise, each team member will enter **uproar.com**, to play games and win prizes. What could be better? This site is the destination of choice for game and sweepstakes junkies and for those who wish to reach a mass audience of fun-loving people. Currently, Uproar and Reese's have partnered to create a "Fun Center" where you can win a year's supply of candy and other sweet things.*

*After a brief registration process (and offers to enter about a "gazillion" other sweepstakes), you will receive 100 iCoins, the Uproar currency. Move through the site and spend your iCoins to play. Win more iCoins in return, as well as many other great prizes. Hang out in Reese's Land or move on to other channels for lottery, games, and game shows galore. Enter a sweepstakes. (you must click on an ad banner to confirm your entry). Follow the instructions. Then compare experiences. Write a report.*

Student reports will vary.

*4.        Let the team try the services of **constantcontact.com**. Constant Contact offers a turnkey e-mail marketing package solution. In less than 5 minutes, you can set up an e-*

*mail sign-up box on your Web site. As visitors fill in their names and e-mail addresses, they can be asked to check off topics of interest (as defined by you) to create targeted groups. Contact other groups to provide input.*

*Constant Contact then provides a system to create template e-mail newsletter layouts, by subject, that can be managed as separate campaigns and sent to your target users on a predetermined schedule. The site manages your mailings and provides reports that help you assess the success of your efforts. Pricing is based on the number of subscribers; less than 50 and the service is free. Write a report summarizing your experiences.*

Student reports will vary.

## End-of-Chapter Real-World Case Questions: Chevron's World of Car Characters

*1.      Explain the logic of using Claymation cars to advertise the Chevron brand. How would you compare the Web advertising with TV ads?*

Both advertising methods are aimed at redefining the corporate image by showing the company as very friendly and approachable.  This may negate some of the negative perception of oil companies.  Both advertising methods are targeted toward children.

*2.      Why would Chevron want to target the 5-to-12-year-old demographic? They certainly do not buy gasoline, and by the time they drive cars, the market for gasoline sales may be completely different.*

Chevron is using this strategy to redefine its corporate image as a very friendly company. Additionally, this marketing campaign generates brand recognition, especially among future customers.

*3.      From what you have learned in this chapter, what factors do you think contributed to the site's success?*

Student answers will vary.  Based on the demographic the site intends to serve, the functionality and services provided by the site meet the needs and desires of this subgroup.  The site is highly interactive, and provides a wide variety of activities for the target market.