

# ONLINE ADVERTISING AS A PROMOTION MECHANISM, A WAY TO MONETIZE AND A SOURCE OF INFORMATION

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## **Abstract**

*Advertisement must be seen in its multi-facet nature, being a promotion mechanism, a way to monetize and a method to spread information. For the advertiser, online advertising is a good method for promoting a certain product, service, company. In the same time, the owner of the ad space charges for its use, which creates a way to monetize for many companies that have an online presence. Another facet is the informative nature of advertising, from the point of view of the consumer. In this paper online advertisements are analyzed, from the point of view of the three facets, with an emphasis on the dominant models, from the likes of the pay-per-click model, and the trend of evolution towards a pay-per-action model. At the end of the paper the trends and difficulties of online advertisements are analyzed.*

**Keywords:** advertisement, promotion, monetizing, information, pay-per-click, pay-per-action

**JEL Classification:** M37 (Advertising), L86 (Information and Internet Services; Computer Software).

## **Introduction**

Ads are present across all mediums, from written press to the Internet. Ads are a big part of the promotion efforts of companies. With the emergence of a new communication channel, the Internet, ads quickly made their way into it, evolving together with the medium itself. The first type of online ads that made it to mainstream use were in the form of banners, followed by pop-ups and pop-under and in-line ads, all being perceived by the user as intrusive in varied degrees (McCoy 2007). The latest trend in the evolution of ads is integration with images and movies (Mei, Hua, Li 2008). However, for all types of ads it is unanimously accepted the fact that the relevance of ads, in the context in which these are displayed, is crucial for the way these are perceived by the users. Even a pop-up, considered the most intrusive form of online ads, will be considered useful, not annoying, by the user if it contains relevant information for him (Ghosh, Mahdian 2008). The mechanism with the help of which relevant contextual ads are identified is the subject of study for many authors (Anagnostopoulos et al. 2007), (Chakrabarti, Agarwal, Josifovski 2008), (Mei, Hua, Li 2008).

The evolution of social-networking websites brought to life another trend, the use of user profile information in the contextual ad selection algorithms for indentifying relevant ads. Google is beta testing a system that creates a profile for each user based on the visited websites (Wojcicki 2009).

However, such approaches raise user privacy issues. Facebook was among the first of the Internet giants that attracted the profound dissatisfaction and criticism of its users by displaying ads that were considered much too personal.

However, ads must be perceived from a more general point of view and not only from the point of view of the users. The users are only one of the four parts involved in the consumption of ads. According to (McCoy 2007) these four parts are:

- p1. The publisher** –represents the owner of the site where the ads are displayed. His goal is the maximization of the profit ads bring him. His dilemma is finding the equilibrium between ads and content, equilibrium that must both satisfy the consumer's needs and bring him enough revenue. Another important aspect is the way ads are paid – pay-per-impression, pay-per-click, pay-per-action.
- p2. The Advertiser** – the one that supplies the ads. He usually organizes ad campaigns that have a well defined goal like raising the volume of sold beer in May. He is also very interested in the way ads are being paid He is interested in raising the profit as much as possible with the smallest possible investment.
- p3. The Ad Distribution Network** – these are companies that make the connection between publishers and advertisers.
- p4. The User** – is the person that consumes the ads. His goal is not looking at banners and clicking on ads. He is looking for information or a product that satisfies his needs. For him ads are either useful, as they point him in the right direction or represent an obstacle. In the end everything comes down to how the user consumes the ads.

Besides the different goal each of the four parts have, the situation is further complicated by the spectacular evolution of the distribution channel, which is the Internet. Websites, the underlying technologies and the users themselves evolve rapidly, forcing the publishers, the advertisers and the distribution networks to find new solutions. Among the problems these three parts face are:

- Users are becoming immune to ads;
- It is becoming increasingly difficult to capture the users attention for long enough;
- Measuring the efficiency of ads is difficult;
- Privacy concerns;
- Users are not willing to accept ads in any form;
- Identifying relevant contextual ads is difficult

Further are presented different models of ad payment from the point of view of the role ads have and the difficulties publishers, advertisers and ad networks face.

### **The User – The Target of the Ads**

By looking at the four participants of the process of ad consumption three facets of ads arise:

- **Promotion Mechanisms** – for the advertiser ads are one of the tools he has at hand to promote his products, corporate image, services.
- **Way to monetize** – based on the nature of the website, the site owners can play the role of advertisers, when they want to promote their websites and products, or the role of publishers. Many times they play both roles. On the flip side, there are many websites that don't sell any monetizable goods, the likes of user generated content websites, blogs. In these situations ads are an attractive way to monetize. And between the two, the publisher and advertiser, there is place for the distribution network, which links the two.
- **Method for spreading information** – the users goal is to find some piece of information or a product, service. They consume ads only if this brings some additional information which points users in the right direction to get to what they are looking for. A relevant ad can be as useful as a good search result provided by a search engine. This is the principle Google, the most widely used search engine at the moment, uses when they mix the search result and ads, a principle that has proved very efficient.

Because of the complex interaction between the four parts and their very different goals it is easy to lose among technical details the goal of ads. Ads are launched by the advertisers to attract attention on their company and products, attention that has to convert into sales and profit. The ultimate goal is increasing the profits of the advertiser.

The consumers are the users. They are the ones targeted by ads. It is crucial for all participants in the process of ad creation and distribution to remember this.

### **Existing ad payment methods**

Consumer behavior has evolved together with the evolution of the Internet, which in its turn, has influenced the way ads are displayed and the ad payment systems.

The first widely used system was pay-per-impression (PPM). The advertiser pays each time an ad of his is displayed. This has been the dominant way to pay for ads for some time. The main problem of the model is that it is hard to measure the effect that displaying one ad has on the overall volume of sales.

Because of this most ads are now paid using the pay-per-click model (PPC). This is the model that lays at the foundation of the Google Empire. The advertiser pays only when the user clicks on one of his ads. There are problems, however, with this model too, like click fraud (Mahdian, Tomak 2007). A company can click on his competitors' ads to increase his advertising costs until their profits are threatened. There are also publishers that click on the ads from their own websites in order to increase their ad revenues. In the same time ad distribution networks are interested in getting as much money from the advertisers as possible, therefore the suspicion existed that some of the big players in the online ad industry were involved in click fraud or at least did not do much to prevent it, as they have no interest in doing that.

Google was involved in a few high profile lawsuits started by advertisers that though they were the victims of click fraud (Vise, Malseed 2005). Besides click fraud, it is still not that easy to tell how many clicks were actually made, because of different technical difficulties and it's not easy to tell how efficient campaigns are either.

More and more often the pay-per-action model (PPA) is being discussed, which can be a solution for some of the issues related to PPC (Mahdian, Tomak 2007). What PPA means is that the advertiser only pays the publisher when the user actually does the action the advertiser wants to encourage with his ad. If the advertiser sells books

then the publisher will only be paid when a book is actually bought, when coming on the advertisers site via an ad placed on the publisher's site. PPA thus solves the click fraud problem, rendering clicks irrelevant. It is also much easier to measure the efficiency of an ad. But there are other problems, like reporting of the number of actual sales. The advertiser, being the one that has to signal each time, through some mechanism, when a sale is made, might be tempted to wrongfully report.

It is interesting to point out the way the payment methods have evolved. PPM is associated with the period of banner and pop-up over flooded websites. Because the users began to avoid such websites different approaches to appeared, like the one taken by Google, which integrated as discretely as possible the ads into their website, in contrast to its archrival Yahoo!. Such approaches brought with them the PPC model. Ads became less annoying and more informative. At this point, when many preach the death of banners and foresee the death of advertising in its current form (Drăgan 2009), PPA is starting to make its presence felt. For PPA ads to be efficient for the publisher it is necessary for ads to be places in a relevant context and not to distract the attention of the user but to attract it at the moment when he wants the information or product the ad gives.

The difficult part for the publisher is integrating correctly into his website the ads. The distribution networks must find methods for identifying relevant contextual ads.

Even if PPC has replaced in most cases PPM, this model is still used. The reason is given by the different goals that advertiser may have. When an advertiser wants to make his brand known or to promote some idea he might be more interested in just displaying ads in as many places as possible. In such a situation PPM is still used. PPC is the dominant model because it allows more accurate measurements of the impact of an ad. Once the user clicks on an ad, the advertiser can be sure that he managed to capture the users attention..

If the goal of the advertiser is to determine a certain well defined action, the like of filling a form or the buying of a book, than most efficient for the advertiser is the use of the PPA model.

#### **Delayed action in the PPA model – case study**

A problem which the PPA model faces, rarely mentioned in the works on this subject, is the one of granting the action when the advertiser has contracts with more than one distribution networks. This situation comes from practice and it is a real case.

If the agent uses the services of Google and the ones of TradeDoubler, the following situations may arise when the advertiser's website is accessed through an ad displayed in the Google network, after which the user leaves the website and after a while:

- s1. Returns to the website directly and completes the action;
- s2. Returns to the website through a TradeDoubler ad and completes the action.

The question is who the advertiser grants the action:

- In situation 1 - Google, because it was the first to direct the user to the website;
- In situation 1 – to none, because the user made the action when he came directly to the website and not using an ad;
- In situation 2 – TradeDoubler, because trough it the user returned to the website the second time
- In situation 2 - Google, because it was the first to direct the user to the website;
- In situation 2 – to both TradeDoubler si Google.

From the point of view of the technology used by most distribution agents and their expectation both should receive their promised fee. From the point of view of the advertiser, he considers that he should pay only the one that brought him the visitor that made the action. Remember that actions may represent the acquisition of a complex product or service, like the buying of a travel package. Many times the user reaches the website through an ad, studies the offer, saves the website address and leaves the website and returns later through some other means. In a PPC system, the situation is relatively simple. If a click was made then the advertiser must pay. In the situation when a PPA model is used the action can be made several visits to the website.

A solution for this situation is to grant the action to the last distribution network through which the user arrived at the website. In situation 1, from above, the action will go to Google, in situation 2 it will go to Tradedoubler. From the point of view of the advertiser this is fair, many times for him paying two or more distribution networks for the same action is not profitable. Distribution networks are not too interested in finding an immediate solution for this situation. As in the case of click fraud they, usually win something out of it.

This is just one of the situation faced when using the PPA model, but because ads that use this model are more focused on the user, many times these serve better the advertisers ultimate goal of increasing the profit.

### **Trends in the evolution of ads**

The evolution of ads is fueled primarily by the necessity to reach the consumers with the desired message. As consumers become more experienced and as the number of ads grow, consumers develop certain immunity to the avalanche of information and ads which manifests itself by ignoring them completely. In the online environment this can be measured with a sufficient accuracy. A considerable number of users admit to never clicking on an ad displayed in blogs or social networks. As consumers become more educated, this proportion grows in the detriment of those who still click on an ad. Most affected by this phenomenon are de site owners, the publishers, for who revenue from displaying ads can be a considerable part of the revenue. These, however, have the advantage that are in direct contact with the users, being the first that notice trends from the niche in which they work and have the capacity to quickly adapt.

Among the most noticeable trends with site owners is the migration from the monetization models mostly based on ads to the use of *affiliate links*. Affiliate links are, in a way, related to the PPA ad payment model. An affiliate link contains a code that uniquely identifies the site owners. These usually link to a product or to a certain section of the suppliers' website. If the user gets to the suppliers' website using an affiliate link and buys the product or service or undertakes the desired action, the site owner that was hosting the link gets a percent from the value of the sale or a fixed amount.

For the suppliers the model is very efficient, they practically have to pay money only when a sale is actually made. Site owners are forced to have a slightly different approach, writing reviews or providing additional information with the purpose to convince the user that the product or service is worth buying. Users are the ones that have most to gain, ads being replaced with information that can be genuinely useful. The main problem of the model is that site owners must be careful not to lose their credibility and not to publish material that gives the impression that it was put there with the sole purpose of being the written equivalent of an ad. The quality of the content has an overwhelming value.

For very big website and especially for social networks, which have a vast amount of information about its users, the biggest temptation is provided by very narrow niche *targeted ads*. Information stored in profiles permits a very precise segmentation on narrow niches. The big players the likes of Google (Wojcicki 2009), Facebook and MySpace have only began to experiment in this field, the first attempts being followed by harsh criticism from users and privacy advocates. The main problem is given by the very nature of the information from the profiles and the question is asked who owns that data? The company that owns the site or the user that put it in there. The trend is clear, however there is no successful implementation yet.

At this moment contextual ads are displayed when the site loads based on the information about the page on which the ad is extracted from the text found on it. The problem is that pages contain more and more often information in the form on multimedia - videos, images and sound recordings. Considerable efforts are undertaken for the creation of algorithms that are able to find out what a picture or movie is about. Companies the likes of Youtube experiment with ad placement inside movie clips but the choosing of the ad is still based on the description that the user fills in manually.

No matter how ads will evolve, the new models must be correlated with the way consumers themselves evolve.

### **Conclusion**

Ads must be viewed from different perspectives, from the point of view of the advertiser, who is interested in increasing his income, from the point of view of the publisher, for whom ads represent a way to monetize his business and from the point of view of the distribution networks, which bring together the two, but also from the point of view of the user, who perceives the ads either as an obstacle in his way, noise that prevents him from finding what he is looking for, either as an useful information that aids him in his search. Having a bird's eye view makes it easy to understand why the ad payment models have evolved from PPM to PPC and now tend to PPA and affiliate link models. The evolution of online ads is easiest perceived from the point of view of the user who is increasingly better informed and has developed the ability to filter out the useful pieces of information from the noise of the Internet. Any new stage in the evolution of ads must give attention to the way users evolve.

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