

## Spotlight on the Future Podcast

### Chapter 2

#### The Future of Online Advertising

In this podcast, Eric Clemons talks about the future of online advertising. After listening to the podcast, be prepared to discuss the following questions, which are also shown in your textbook.

Jon Gordon: This is Jon Gordon with the chapter two, Spotlight on the Future podcast for Our Digital World. The following is an interview with Eric Clemons, professor at the Wharton School at the University of Pennsylvania. The dominant business model for online content is advertising but, Clemons argues that the Internet and advertising cannot coexist for much longer, the way he phrases it is a bit stronger in fact. The internet is shattering advertising. Clemons says the Internet provides the seeds of advertising's destruction.

Eric Clemons: The first thing I think the Internet gives me is massive amounts of information; it gives me the ability to see what hundreds or thousands of reviewers thought of a movie, thought of a book, thought of a micro brewery, thought of a restaurant in Paris, so I've got this tremendous amount of information and the other thing it gives me is complete and total freedom. I do not have to sit and watch an ad.

Jon Gordon: So, you feel that advertising is not needed as sort of an information service to consumers because basically they can find out about any product just by searching the Internet and find out what real people are saying about them?

Eric Clemons: That's actually right, but, the reason the Internet again is shattering advertisement is its giving me an alternative, and its giving me an alternative I actually trust a great deal more. Both Forester research and Accenture have done studies of what consumers trust and don't trust and highest on the list is community content websites and a direct recommendation from friend. Much lower on the list is advertising and then the actual bottom of a list is things that companies say about themselves. So I now have information that I trust a whole lot more than the information that companies are providing me, that's a good thing and I have the freedom not to listen to anything I don't want to listen to. People tell me advertising works; I generally ask them why they think television stations, traditional media synchronize the commercials on the evening news and it's obviously to keep us from avoiding a commercial by hopping to somebody else who is not running their commercial at precisely that time. If companies, if broadcasters thought we wanted the commercials they would stagger the commercials so we could flip to the commercial they think so they we're captive and we have no choice. There is no

Internet user who is captive; I don't want to see an ad, I am not going to see an ad so if you can combine the fact that we don't trust the ads we have through the Internet alternative sources of information instead of the ads and we can duck the ad the idea of porting traditional advertising over to a medium where I have the choice of ignoring it and the choice of finding something better than it I just can't see making that work.

Jon Gordon: Internet content has for the most part been built on advertising dollars in fact Google has built its entire empire on advertising, aren't you over stating it a little bit?

Eric Clemons: Even if that's true, tell me exactly how many firms have search engines that dominate the market so if Google is making its money on search how many firms are going to do that? I mean I find the argument actually really almost absurd. For example, the New York Times is not making money online, cannot charge at the moment for subscription. Business Week online revenues are tiny fractions of what they would have gotten from the same readers purchasing the magazine, do you think Google is going to provide the model for Business Week? Business Week will make its money off the search engine?

Jon Gordon: So, what are the alternatives to advertising when it comes to providing necessary monetary support for news and blogs and other sites on the net?

Eric Clemons: Well, some of them are actually going to be very unpopular. The idea that everything on the net is a free birthright is going to take some rethinking. We already understand that if we want our report from Gartner we either pay several hundred dollars for the report or we subscribe to Gartner's research services. We understand that there are an array of information providers on the net who give us content that is not available elsewhere and we understand that we need to pay for it, we don't like it and tremendous amount of music stealing, video stealing suggests that we are going to avoid paying for content as long as we can but, ultimately we need to find a fair price for content and allow people who provide it need to be paid for it so one just thought is paying for content. There are very few sites that have made this work other than the fairly expensive professional research corporate sites. Another thought is paying for experience. World of Warcraft doesn't have a high monthly fee but, it has a fee and it has millions of users who cheerfully pay for it.

So I would say paying for the experience or paying for the content is certainly going to be important and then paying for access, there are travel portals like Orbitz. Customers come they do comparison shopping they buy something and the hotel or the airline that gets sold based on a small commission to Orbitz for essentially forwarding a customer. There are other means of getting access that are at present more uncertain. I think mobile messaging has real value as a form of a monetization. If I am in New York and I seriously am at loss for something to do and I get a message that says Clarke Terry is playing the Blue Note and there are two seats available still at thirty dollars do I want them and I hit yes I am delighted. If this happens to be sent to me because they know I am a jazz fan they know I am in New York from the GPS in my phone and they sent me the message I am not going to view it as an invasion of privacy I am not going to view it as a spam I am going to view it as a pretty useful mobile context sensitive promotion.

Jon Gordon: If you are right about a wide spread failure of advertising on the internet it would seem to follow that we could see a contraction in professionally produced Internet content that would not otherwise exist without a business model?

Eric Clemons: Possibly. I do think that one of the problems with the Internet is we have given the illusion that content is free and was free to produce because how long does it take to type. But, A real investigative story something like the Watergate investigation took months and probably cost hundreds and thousands of dollars and it's actually a pretty interesting possibility that we could lose some of the most important investigative reporting if we don't figure out how to monetize the Internet I guess consumers need to think about how much they really value trusted sources.

### **Talk about It**

1. What would be the consequence of a collapse of advertising as an Internet business model?
2. Would Internet users be willing to pay for content that's been free previously?
3. What are the best ways to monetize (make money from) content, aside from ads?

Additional Resources:

Why Advertising Is Failing On The Internet (TechCrunch) <<Link to:  
<http://www.techcrunch.com/2009/03/22/why-advertising-is-failing-on-the-internet/>>>  
The End of the Free Lunch – Again (Economist) <<Link to:  
[http://www.economist.com/opinion/displaystory.cfm?story\\_id=13326158](http://www.economist.com/opinion/displaystory.cfm?story_id=13326158)>>