Brand Marketers Return to the Web, Driving New Growth in Display Ads

By DAVID KESMODEL
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Online advertising is coming full circle.

The amount of money spent on Web advertising has surged in recent years, surpassing levels reached during the peak of the dot-com boom. The recovery has been driven by so called paid-search advertising, the small text-only sales pitches that accompany Web searches on Google and Yahoo, and are sometimes served up on other Web sites.

But the torrid growth of such ads has already started to slow, in part because the market is reaching capacity. At the same time, analysts say, display advertising appears to be making a comeback, on track to grow faster than search ads over the next few years. The resurgence is being driven by an unlikely source: brand advertisers. Those are some of the same companies that first experimented with -- and later abandoned -- banner ads during the Web's early days.

Now, thanks in part to new tools that help monitor the effectiveness of online campaigns and more advanced technology for delivering ads, large brand advertisers like PepsiCo Inc. and Ford Motor Co. are charging back onto the Web. Such advertisers prefer display ads to paid-search ads "because they allow them to tell a story and paint a picture," said Jeff Lanctot, general manager at aQuantive Inc.'s Avenue A/Razorfish, a large buyer of online ads for marketers.

Research firm eMarketer Inc. estimates that spending on display ads will rise 27% to $5.4 billion this year, while spending on search ads will grow 26% to $6.5 billion. That's a big change from last year, when paid search grew far faster than display advertising.

Blinking Rectangles

In the Web's early days, the state of the art in online advertising was the banner ad, a rectangle that blinked atop Web pages,
waiting for users to click. Such display ads were a logical first step for marketers looking for an easy way to translate their offline strategies to the Internet, but not a terribly satisfying one. It was difficult to measure the effectiveness of online campaigns, and efforts to make the ads more prominent seemed at times to backfire, annoying viewers instead of wooing them. (Marketing companies tried aggressive tactics to boost the effectiveness of display ads -- X10 Wireless Technology Inc. became widely reviled for serving "pop-under" ads hawking its home surveillance cameras.)

By 2001, many big advertisers were yanking money out of Web advertising and shifting it back into television and print, which seemed more stable. "Brand advertisers were exploring online, but they weren't finding value," said Dave Morgan, chief executive of Tacoda Systems Inc., an online advertising company.

Mr. Morgan said brand advertisers are making better use of technology in today's online campaigns, thanks in part to the prevalence of high-speed Internet connections, which have made it easier to include video and music in ads. Ad agencies are now assigning some of their most talented people to develop so-called rich-media ads.

Viewers of a recent ad for the Hyundai Sonata on Vehix.com, an automotive information site, could click several different sections of an image of the car to view details about its interior and horsepower, without leaving the advertisement.

Getting a Web site visitor to interact with an ad for 10 seconds can be more effective -- and less expensive -- than a 30-second television commercial, said Mitch Lowe, chief executive of San Francisco-based Jumpstart Automotive Media, which helps Web sites sell ads to automakers. "It gives you enough time to tease somebody, so that if they aren't interested, they can go away, and if they are, they can click and get way more information than they ever could before," he said.

Still, such campaigns are by no means cheap. A static banner ad on a typical Web site might cost between $7 and $9 for every 1,000 times it is shown, while a video ad could be as much as $25, said Mr. Lanctot of Avenue A/Razorfish. In paid-search advertising, prices per click average around 50 cents.

Mr. Lanctot said his company's clients spend an average of about $500,000 a month on online ads, with about two-thirds going to display advertising. Last year, total spending on Web advertising in the U.S. rose 30% to $12.5 billion from $9.6 billion in 2004, according to the Interactive Advertising Bureau, an industry trade group. Display ads accounted for last year's spending, with search ads accounting for 41%.

Oreo Balloons

Brand advertisers are trying to appeal to consumers with sophisticated display ads that aren't intrusive. In a recent campaign, the background on the homepage for Pogo.com videogame site run by Electronic Arts Inc., carried the logo for Kraft Foods.
chocolate-covered Oreos. Pogo also altered one of its popular free games, Poptop, so that the balloons that players popped looked like Oreos.

Andy Markowitz, director of digital marketing and media for Kraft, said the company's goals for "driving brand awareness." The company declined to disclose the campaign's cost. In 2005, Kraft spent $8.6 million on online display advertising from $8.2 million a year earlier, according to market research firm TNS Media Intelligence.

Bob Lonigro, senior director of national advertising sales for Electronic Arts, said the company has been surprised by the new interest some brand advertisers have had in advertising on Pogo.com, particularly fast-food chains like McDonald's Corp. and Wendy's "We've seen them come out of nowhere," he said.

**Beyond Clicks**

Brand advertisers' return to the Internet comes with a catch: They want evidence their ads are effective.

Proponents of Web advertising have long argued the medium is superior to traditional advertising because marketers can collect mountains of data about Web surfers' interactions with ads. But it can be difficult for brand advertisers to measure the success of their campaigns, since their goal is generally to drive offline sales.

"We're not as much about click-throughs," said John Vail, director of the interactive marketing group for Pepsi-Cola North America. To gauge effectiveness, the beverage giant is participating in a program run by Yahoo Inc. and market-research company ACNielsen that tracks the online behavior and offline purchases of about 36,000 U.S. families.

Last year, Pepsi ran ads on Yahoo for a sweepstakes promotion called "Call to the release of the new Star Wars movie "Revenge of the Sith." The company found that consumers who were exposed to the ads were more likely to buy 12- or 24-packs of Diet Pepsi than those who weren't.

Pepsi is encouraged by its online campaigns, Mr. Vail said, and has been ramping up its spending. Last year, it spent $19.2 million on online display advertising in the U.S., or about 2% of total spending, according to TNS Media Intelligence. The figure more than doubled from the $9.3 million it spent a year earlier.

"It's all about getting incremental exposure," Mr. Vail said. "We basically use online as an overall extension of our communication. Consumers are spending nearly 20% of their time online, so we're going where the consumers are."

Write to David Kesmodel at david.kesmodel@wsj.com