Globally, advertising has become a waste on money. In the past, the evolution of advertising has mitigated the advancement of technology. Since 3000BC, word-of-mouth and signs were the only forms of advertising. Businesses had storefronts on Main Street and advertised by using window dressings and signs such as sandwich boards. Eventually, the advent of the printing press allowed for a wider distribution of information and advertisements soon followed in newspaper and magazines. Stores were still “downtown” and people had to travel to the business, but businesses that advertised in local circulations received more foot traffic, thus more sales and revenue. Some say that this was the start of marketing and advertising agencies. During the 1920s, radio was mainstream and a commercial medium. For the first time, advertising could be heard as well as be seen. A radio was virtually in every home in America and Europe. Serial adventures and music captivated their audiences and in 1841, the first advertising agency was formed in Philadelphia. Volney B. Palmer contracted with local printing and radio agencies for ad space. Palmer implemented a unique campaign – it sold their contracted ad space to other agencies for more money. Sales of advertised products soared and advertisers rushed to produce catchy jingles – a practice that is still used today.

Televisions were beginning to become affordable in the 1950s. For the first time, advertisements were in motion. Advertisers needed to make mini-movies in 30 or 60 second clips to effectively entice potential buyers. With the advent of television, demographics now played an important role in marketing. Moreover, cable television expanded the channel selection by providing more specific programming. This allowed advertisers to narrowcast via demographics. Originally, advertisers used specific time slots as a reflection of age groups. With channel expansion, programs are catering to specific age groups, making marketing more specific.

The internet drastically changed the way advertisers work. The internet is basically one big network of computers and advertisers needed to figure out a way to exploit that. After some time, advertisers learned that by advertising on popular websites, exposure to their product was at its greatest. Counters that count the number of visits to a particular website proved to be invaluable to advertisers however, more recently, that isn’t as important as search engine data. Search engines save metrics regarding types of searches, where they originate and
the most common website visited from the searches. Search engines, like Google, profit off of those data by selling tier-priced ads. For example, Town Fair Tire would be smart to pay the premium for advertisement on searches from east coast IP addresses searching for “tires”.

With all of this ad space available, critics speculate that advertising has become too diluted.6,8 Marketers have to prioritize which outlet to use for an advertising campaign. Of course, a broad, blanketed approach for a campaign is best, but that would be too expensive for most companies. Advertisers have to do research to collect data for what kind of campaign to run. That, in turn, increases the cost to businesses.

In 2008, American businesses spent over $21 billion in online advertising,3,4,6 because advertising is an investment in the company instead of an expenditure. Banner ads on websites use up real estate on pages and generate very few sales.3 Latest data suggest that the number of visitors of websites who actually click on a banner is less than a quarter of one percent.3 In other words, one out of 400 people open the ad. Moreover, conversion rates suggest that only one in 40,000 people who open the ad will actually purchase that product.3 Online ads have become the “white noise” of the internet; most people have become annoyed by them. A recent study showed that MySpace users typically spend less than 10 minutes on the social networking site.3 This number is down from 25 minutes in 2007.3 The study indicated that the increase in advertising real estate on the site caused aggravation and frustration. A similar study claim that 13% of visitors to networking sites like MySpace pay attention to the ads.6,8 However, up to 60% of visitors to eCommerce websites pay attention to the ads on those sites, indicating that people are interested in a specific item and not random ads promoting things they are not interested in. In contrast to that statistic, only 5-6% of the people surveyed paid attention to video ads or pop-up ads.3

A major factor in the way people react to advertising is the present economy. Five years ago, when the economy was at its highest ever, advertisers spent an exorbitant amount of ads and marketing because the reaction to those ads was more positive than it is today. Jump ahead 4 years to when the economy began to flounder and people reacted by tightening their wallets and spent only on necessities. A maker of a poor economy is the amount of disposable income. When the economy is booming, people are more secure in their jobs and are less hesitant to save money. This increase of disposable income affords people the opportunity to purchase superfluous goods that normally they wouldn’t need or want. For example, motorcycle sales have decreased over 35% over the past 1.5 years while Wal-Mart sales have
steadily increased. A study of parking lot security tapes at BJ’s Wholesale Clubs and Sam’s Clubs across the nation revealed an interesting trend. Since late 2007, there has been a significant increase in the number of BMWs, Mercedes, Lexuses and Infinities in the stores’ parking lots. Buyers are becoming more and more cognizant of their spending and shift their way of thinking - “Do I really need a motorcycle?”

There is an advertising elasticity of demand function mentioned in the Allen book:

\[ Q = a - bP + cI + dA \]

\( Q \) = quantity demanded
\( P \) = price
\( I \) = per capita disposable income
\( A \) = advertising expenditure

\( \eta_A = \left( \frac{\Delta Q}{\Delta A} \right) \frac{A}{Q} \)

A major factor in the equation is the disposable income of the population. An assumption of disposable income is apparent in the equation. In the current recession, this formula indicates that as disposable income decreases, the advertising expenditures must increase to compensate. Moreover, the equation indicates that there is a relationship between pricing competition and advertising competition.\(^1\)

With the advent of TiVo or digital video recorders (DVRs), advertising on television have been mostly bypassed by consumers. Today, it is normal practice that a family will record the television programs that interest them and watch them later. However, during the playback, families are using the fast-forward feature on their DVR to completely skip the commercials. This saves the family up to 8 minutes for every 30 minutes of normal programming; however it loses 8 minutes worth of precious time to advertisers. To compete with the new technology, advertisers took something from early practices when product endorsements were in the actual television program by doing much more product placement in television shows. Before TiVo, companies promoted their product within programs in a subtle way. For instance, Longaberger baskets were placed in Monica’s apartment in the show Friends. Actors did not draw attention to the products; the baskets were mainly used as props. Today, however, advertisers have to basically force the product on the viewer. An example of this is the program Chuck. As of late, the stars of Chuck are eating more and more Subway sandwiches – even dialogue is written to describe the taste of the sandwiches. A recent article about the show explained that without the Subway ads in the show, the show would be too expensive to produce. Some may say that shows like Chuck are selling out, but technology is forcing advertisers to be more creative
because ad space and revenue from ad sales drive the communication industry. In a Capitalist society where the government holds no stake in most of the communication industry, independent companies like Viacom need to generate revenue. If advertisers know that their commercials are being overlooked because of DVRs, communication companies cannot sell their ad space at a premium. Product placement within a television program is one way that companies are mitigating the “DVR effect”. Typically, people watch a television show for the content and not for the commercials. Therefore, people will not fast-forward over the show if a product is being advertised.

There is no simple solution to the waste of money caused by advertising. In some people’s eyes, the money spent on advertising is on a downward spiral; more and more money will be spent on advertising and fewer and fewer people will pay attention to advertiser’s ploys.⁴

Although more and more money is being spent on advertising, the expenditure against the US GDP has been relatively constant. Since 1919, the US has spent approximately 2.2% of the GDP on advertising.⁵ Meanwhile, the GDP has grown exponentially in recent years. This graph was generated from data through years 1919-2007, prior to the recession that the world is currently in. However, a good point to mention is that the percentage spent on advertising has been declining since 2000. Interestingly, the roll out of TiVo DVRs was in late 1999; one can speculate whether there is a correlation.

It seems that we are approaching another advertising reform. As technology advances, advertisers have to be more and more creative. Advertisers have to reinvent themselves – it seems that consumers are getting tired of the constant barrage of advertisements.
References


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