Advertising, Information and Society (Part 2)

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Relationship between Advertising and Information

Critical characteristics of the Internet as a medium are (a) its dependence on ad revenue instead of subscription fees, (b) low to nonexistent variable costs, and (c) low distribution costs. Each of these characteristics, which influence the quality and quantity of information available online, also affect competitive dynamics. Only a few high-brand-equity news providers (e.g., Wall Street Journal) can charge a subscription fee. Content providers generally rely on an ad-supported business model to generate revenue. Websites providing information or selling products through an electronic storefront typically use advertising to supplement their income.

Cost structure has contributed to exponential website growth during the last few years. The Internet is an information hypermarket. As larger sites like Wikipedia dominate web traffic for mainstream information, smaller suppliers serve niche information markets. For example, almost any hobby imaginable has multiple websites dedicated to it. These websites, which typically host a discussion forum that allows hobbyists to share special information and thus create informational content, derive their profits from ad revenues.

In the short run, amateur content providers can remain online regardless of profitability. In the long-run, lack of profitability means their websites are likely to die when they retire or lose interest. Mom-and-pop websites are like any other mom-and-pop business. Highly lucrative sole proprietorships tend to be continued or sold by the estate; incorporated businesses often are not tied to a single person’s fortunes. Internet advertising should increase the stability of information on the Internet. Valuable information content, once created, will continue to exist and be improved over time due to advertising and industry profits.
Figure 2 shows how advertising contributes to information availability, which in turn contributes to economic growth. The arrows do not represent causality, but rather indicate a relationship exists.

**Figure 2**
Advertising’s Effect on Levels of Information and Economic Growth

Mediated information forms, such as newspapers, magazines, radio, television, and the Internet, thrive in advertising-rich environments. Advertising does not cause information to exist; instead, people cause information to exist. In environments without advertising, great contributions still occur. The scholarly works of many great Soviet writers and philosophers, which were suppressed during the Soviet era, eventually appeared in the West. Information can diffuse rapidly worldwide in highly mediated environments, which have proliferated as Internet access and use expands. Viral videos on YouTube can receive millions of hits after only a few weeks of being posted. Advertising creates an online environment that directs entrepreneurial energies towards creating valuable content. Advertising catalyzes information development by providing both intrinsic and extrinsic benefits and lowering information costs to consumers. Advertising allows Internet users access to content at minimal cost. Assuming the current 70/30 revenue structure for publications (70% of revenues from advertising, 30% from subscription fees), a magazine with a newsstand price of $5.95 otherwise would cost $19.83.

**Economics of Information on the Internet**

Societal benefits are likely to accrue from increased information availability on the Internet. From an economic perspective, two
pathways are likely to translate increased information availability into economic growth: (a) more efficient markets, and (b) enhanced knowledge worker productivity.

More efficient markets are achieved through decreased search costs. Consumers search for the lowest price until the marginal cost of search equals the marginal revenue of expected search-related savings (Stigler 1961). Internet search engines like Google and online marketplaces like eBay or Orbitz have drastically lowered consumers’ search cost. Although most revenues for these online marketplaces come from transaction fees, such websites supplement their revenues by selling banner ad space.

Increased marketplace efficiency manifests itself in two ways. First, price dispersion for truly homogenous products has decreased to record lows. As per Stigler (1961), price dispersion for homogenous products reflects the amount of market ignorance. Second, price dispersion for other products tends to increase in most product categories as product types and varieties proliferate, which is consistent with today’s ever increasing market fragmentation and mass customization. This fragmentation primarily is attributable to technological changes and decreased search costs. Decreasing price dispersion among truly homogenous products and increased variety in non-homogenous product categories are symptomatic of efficient marketplaces induced by information on the Internet.

Decreased search cost also make labor and investment marketplaces more efficient. Marginal search costs largely determine profitable investment domains, workers’ occupational and location choices, and knowledge about product quality (Nelson 1974; Stigler 1961). Better information helps entrepreneurs identify the best new markets and investment opportunities. Websites like primarily ad-supported Monster.com facilitate truly global job searches. At the macro-level, better and more information allows more efficient allocation of scarce resources.

Government funding, charitable donations, and advertising support the production and distribution of information on the Internet. Government funding allows public universities to maintain websites and pay for other entities to maintain and improve networks of information, such as Business Source Premier, World Catalog or university-produced sites such as the Stanford Encyclopedia of Philosophy. Charitable donations support websites like Wikipedia and The Encyclopedia of Life.

The value of ad-supported content on the Internet has been overlooked. Ad-supported websites contain information about
products that often complements research information. Well-informed consumers are more productive information users, more satisfied customers, more productive investors, and more effective entrepreneurs. Information from such websites boost both worker and consumer productivity (Hayek 1945). By increasing available information, advertising increases worker productivity and concomitant economic output.

**Discussion**

Our theoretical framework (Figure 2) has several implications for researchers and practitioners. Previous research described information by classifying it into multiple categories. We propose an information specificity continuum, based on Glazer’s information intensiveness continuum, as an alternative approach to describing information. The information specificity continuum provides a framework for researchers and a more natural approach to examine consumer information on the Internet that is rich, unstructured, and context dependent.

The proposed framework could guide research on other macro-level phenomena in marketing, such as growing market fragmentation and increased mass customization. Generally, these trends have been attributed to technological change. Insufficient attention has been paid to the role of Internet-searchable product information as a driver of these trends. By measuring information available for specific markets and applying this framework, new insights are possible.

A macro-level firm implication of the theoretical model is advertising benefits society. A macro-level public policy implication is governments striving for economic growth should re-examine the taxes levied on advertising revenues and expenditures. Advertising expenditures are considered ordinary business expenses in the U.S. and are 100% deductible in the year they are incurred. This beneficial tax policy should remain. U.S. state taxes on advertising expenditures vary widely and changes consistent with federal policy could stimulate online information production. Advertising revenues that online content providers receive are fully taxable as income. Online ad placement services such as Google’s AdSense must report payments to website owners and bloggers to the Internal Revenue Service. Time spent filing taxes burdens amateur bloggers and website owners who collect advertising revenues more than the extrinsic benefits they receive. Sensible taxation policies would give governments a competitive advantage in fostering highly profitable e-commerce. The benefits of such a tax policy would create knowledge spillovers globally, with the only
barriers being cultural (e.g., intercultural and language differences), temporal (time-sensitive information), and access (e.g., digital divide, censorship).

The digital divide may influence the ability of online information to promote economic growth. The digital divide refers to countries or groups within countries without the resources to access online information. From 1995 to 2003, Information and Communication Technology (ICT) related productivity growth in Russia and Romania, and to a lesser extent Slovakia and Bulgaria, lagged the European Union due to structural problems and the digital divide (Piatkowski 2006). In contrast, the Czech Republic, Hungary, Poland, and Slovenia experienced ICT-related productivity growth that grew their economies (Piatkowski 2006). The Internet’s impact on economic growth can be enhanced by income redistribution meant to reduce the digital divide (Noh and Yoo 2008). Creative solutions can cause severely disadvantaged groups to benefit from digitally empowered development (Hammond 2001). Programs such as One Laptop per Child (OLPC) and micro-financing for impoverished people living in international locales (e.g., Kiva, Wokai) could spur development where none occurred previously.

Although marketers routinely scan legal, political, socio-cultural, and economic environments, they often ignore the information environment. Our theoretical framework implies firms should focus more on the information environment surrounding their products. For example, firms can increase the economic value of online information for their products by increasing the probability consumers will access favorable information and translate it into product knowledge and product purchase. In addition, new directions for market research are suggested.

**Conclusion**

Our results offer marketers suggestions for more effective advertising. Marketers may attend more to the information environment surrounding their products by designing ways to value online information and measure how it may help their marketing efforts.

We began with a philosophical analysis of information. This construct has great potential for marketing theory because it allows marketers to consider their products in a different light. To understand practices such as dynamic information serving and real-time value co-creation in online markets, a well-developed and philosophically rigorous information construct, such as the information intensiveness and information specificity continua, become increasingly important. In addition, we show endogenous growth
theory can explain how increasing levels of information are creating economic growth.

References


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