

# ADVERTISING IS A MESS—PLEASE HELP!

If there ever was an industry that needed disruptive change...

/ BY GREG STUART



Greg Stuart is soon to be ex-CEO and president of the IAB and co-author of *What Sticks: Why Most Advertising Fails and How to Guarantee Yours Succeeds*.

**M**ORE THAN 100 YEARS AGO, THE retail magnate John Wanamaker said, “I know that half the money I spend on advertising is wasted. The problem is, I don’t know which half.” Say that in a room full of advertising people today, and a ripple of nervous laughter ensues. In my book *What Sticks, Why Advertising Fails and How to Guarantee Yours Succeeds* (Kaplan Publishing, 2006), co-author Rex Briggs and I estimate that \$112 billion of the total \$295 billion spent in the U.S. on advertising is wasted.

In our research, conducted against \$1 billion in advertising spending, we found that 47% of the campaigns measured failed before a dime was spent on media insertion, suggesting Wanamaker was correct. While most of that waste is a result of ineffective advertising and sub-optimal media selection, it’s just the tip of the inefficiency iceberg in the advertising industry.

As the (soon-to-be ex) head of the interactive media industry’s trade association, the Interactive Advertising Bureau (IAB), I’ve witnessed firsthand the reluctance of traditional marketers and their agencies to adopt the Internet as an advertising medium. Certainly, the interactive ad industry has made progress during my tenure, growing from \$6 billion to \$17 billion in annual online ad spending. But during our research for *What Sticks*, Briggs and I learned that if advertising were a “rational” industry, online ad spending would be closer to \$40 to \$50 billion.

The ad industry is long overdue for change. Other businesses have gone through disruptive change and technology innovation. Finance departments have been revolutionized by both hardware and software developments. Supply chain management has led innovation in manufacturing and distribution. Salesforce automation has forever altered businesses. And enterprise software has been cleaning up the rest, wringing out efficiency after efficiency.

I really love the ad business. As a former venture partner for a west-coast VC firm, I would love to see the VC community get more deeply involved in the advertising industry. There has been a healthy influx of VC spending in the Internet, but advertisers still only spend 5% of their budgets online. Innovation and disruptive change have often been led by the VC community, and it has greatly affected other businesses—except advertising.

In my experience raising money for advertising businesses, many VCs suggest that they don’t get involved in creative businesses like advertising and marketing. True, they are creatively driven businesses. But there are parts that aren’t, and they could use more business science and technology help—just the spot for a forward-thinking VC to step in.

## Wring Out the Inefficiencies

An obvious first step is improving the hugely inefficient business of planning, executing, buying, tracking, and back-office management. Although the ad industry’s trade association kicked off an eBiz initiative a few years ago, most day-to-day work is still being done by fax and phone. Most advertisers’ primary billing systems are closed proprietary systems. The enterprise applications that make repetitive processes efficient are badly needed by agencies, especially with the downward pressure to lower agency fees.

## Improve Performance with Data

Targeted advertising—contextually relevant ads served to individual consumers—would be a major step forward for all media. Irrelevant ads (like men seeing ads for products sold to women and vice versa) only teach consumers to ignore advertising. There must be a way to consistently personalize ads that does not trigger consumers’ privacy concerns. Contextual search ads and behavior targeting is helpful, but what about the rest of the \$285 billion in advertising spending.

## Create Better Advertising Measurement

The tech industry (and most VCs) would be horrified if they knew how media—the underlying currency for the ad business—is measured. Some TV (and most radio) measurement is based on paper diaries completed by consumers and compiled by hand. Marketers need a real-time “dashboard” on their desktops that shows them the actual impact their campaigns are having on consumer attitudes and behavior. This one area alone is rife with opportunity. Additionally, click fraud in search and affiliate marketing still needs a world-class solution.

## Increase New Media and Distribution Channels

Only a decade ago, advertisers only had TV, radio, magazines, and outdoor to reach consumers. Now, there’s a new medium popping up every five to seven years. The Internet has certainly not seen the last of its development, and it’s not really one single medium, it’s many. In addition, mobile, IPTV, and in-game opportunities are here or just around the corner. A lot of investment is going into these areas already, and that should continue.

## Develop Effective Advertising Products

Advertisers are surprisingly poor at developing adver-

tisements with the assurance that they will be effective. Two years ago, I was in a meeting with the CEO of a major auto company who asked its head of marketing a variant of the same question five times: “What do you mean we spend hundreds of millions in advertising and don’t know what it does?”

Potential solutions to address this question are many and varied: better research tools, better auditing and media measurement, more control over frequency distribution of ads, and so on. While this may not be an area of interest for the VC community, it’s important that ads meet a basic consumer motivation and clearly communicate their message. This is a process that could be systemized for the entire industry.

What does all this mean for my friends in the advertising business? Change? You bet. Dramatic change? I really hope so. The list of improvements—and opportunities—goes on and on. If we can make the industry work better for marketers and ad agencies, it will better serve media and consumers. Contrary to popular belief, Ad spending will increase because marketing will play a stronger and more predictive role in boosting a business’s top line and margins.

I invite the VCs and entrepreneurs of the world look deeply at the advertising industry. It needs a revolution, and they are the people to do it. ☺

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