



A Briefing by IAB Europe

# **Advertising on the Internet**

A quick download for policy makers



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## 1 What is advertising on the Internet?

Like other media, the Internet provides a variety of ways that an advertiser could use to help ensure that the message it is distributing reaches the audience that will find the information most relevant.

As advertisers aim to maximize the effect of their advertising campaigns they will often choose to reach the groups of consumers for whom the message in a given campaign is most relevant. There are a variety of means and techniques both in offline and online advertising that advertisers can use to do this such as their choice of media channel for distribution of the message (for example, Internet, television, newspapers), or the content that the advertisement sits alongside.

Relevant advertising on the Internet is of more interest to consumers as well as to businesses. Consumers discover more of what interests them, as well as benefit from the mass of content, services and applications online that the advertising funds (see below). Relevant advertising also results in cost-savings to consumers; and businesses can more effectively market goods and services, thereby lowering costs and thus prices to consumers.

**1** Consumers are responding to more customised advertising, resulting in increased usage of the technologies by advertisers. A recent survey found that the number of online marketers in Western Europe who use behavioural targeting grew 150% between 2006 and 2007. See Jupiter Research, "European Search Marketing Executive Survey 2007" as cited by Internet Retailer, April 3, 2008.

## 2 Benefits of Internet advertising to consumers

Much of the content and many of the services and applications available on the Internet is supplied by publishers and Internet and software companies at no cost to the consumer. This business model has become the most successful one on the Internet and free services are consistent with what consumers now expect and demand. Publishers, Internet and software companies are able to provide this material through the revenues received from the advertising served on their websites.

The advantage of relevant advertising for Internet users is that they see advertising that corresponds to what they are looking for at a given moment (contextual advertising) or categories of information that they have been interested in over a period of time (behavioural advertising). This makes it more likely that the information contained within the advertisement is of interest or relevant to the user.

Internet users have demonstrated that they are more interested in, and pay more attention to, advertisements that fit their specific needs.

Among the significant benefits of advertising on the Internet are:

- Advertising is more suited to consumers' wishes and needs thereby enhancing their online experience and helping to ensure that they receive advertisements for content, products, and services in which they are more likely to be interested in.
- Access is free to Internet content such as the latest news, business, entertainment, maps and other important information. The subscription model which, in the past, has been relied upon by a significant

number of news publishing firms (e.g. the Guardian newspaper in the UK) has been replaced by Internet advertising, which provides free content for millions of consumers. Quality online content is costly to produce but is provided free to consumers because it is subsidised by advertising.

- Access to information tools, including search engines (e.g. Google, Yahoo! and Microsoft Advertising's Live Search). These services have democratised the availability and accessibility of informational and educational content. Countless searches are performed daily and many of the leading search engines on the Internet are free to users as a result of advertising. Similarly, comparison shopping sites enable consumers to compare product features, prices, return policies and shipping fees and views on the product/service, so determining the best value for their money and their personal requirements.
- The use of a multitude of communications services and productivity tools. The creation, development and ongoing improvement of current and future communications and other online services (e.g. e-mail, blogs, chat, conferencing and telephone services; productivity suites such as online-based office software, employment services; social and professional networking communities, enhanced classified services; video and photo storage) are supported by advertising revenue. It is estimated that there are one billion users of free ad-supported e-mail services in the world today. Moreover, blogs, photo and video sharing communities and similar types of communications platforms enable users to voice their opinions and create and share content and experiences for others. Internet advertising fosters free and more robust, diverse speech and helps save consumer costs and fees they used to be charged for communications and productivity services.

2 63% of online users pay more attention to advertisements that fit their specific interests & Internet (Behavioural Targeting & the Purchase Funnel Opportunity, Jupiter Research, June 2007). 52% of respondents said that they would be more likely to click on a banner advertisement if it was more relevant to their particular interests or needs; and 66% of respondents said that they would find banner advertisement less intrusive if they were more relevant to their areas of interest or needs (Advertising & Consumer Privacy, Ponemon Institute).

### 3 Benefits of Internet advertising to businesses

More relevant online advertising also delivers significant efficiencies and benefits to business. For example, advertisers could deliver messages to relevant audience segments independently of the content of the web page on which an advertisement is served. A car advertisement could be served to users interested in cars while they visiting the travel pages of a newspaper, rather than in the motoring section. This enables publishers to monetise a wider variety of content sections on their websites. It also provides opportunities for advertisers to show an appropriate message to a visitor when there is no content on the site to support the message, but where an audience segment can be built to find the right audience.

Importantly, more relevant advertising on the Internet also has had a positive impact on small businesses. It has opened larger markets to them, lowering barriers to entry and creating national markets from local, regional or niche ones. For example, where the reach of a local band or clothing designer would have had a local focus, their music or fashion can now reach people nationally or internationally.

### 4 Examples of Internet advertising techniques

Key techniques commonly used include:

- Contextual advertising
- Demographic advertising
- Behavioural advertising

#### A Contextual Advertising

Advertisers are able to select the topic of the published content that an advertisement is displayed along side. In traditional media such as print, this is achieved by selecting the type of publication (e.g. a sports magazine) or a section of a regular newspaper (such as the financial pages of a daily newspaper, or the travel section of a Sunday newspaper). On the Internet advertisements can be served within a chosen context by the selection of a website focused on a particular topic or by specifying sections of a more general website. This is the most common form of online advertising and can be illustrated by the example of a mortgage company that advertises their current loan rates on a website which compares different loan offerings.

#### B. Demographic advertising

Demographic advertising has existed in the offline world for many years. It is based on key traits that may include gender, age, salary range, location, socio-economic class and marital status. However, demographic advertising on the Internet enables more up-to-date and interactive advertising. This can be done through information that a consumer provides on a form or survey or signing up to a service, e.g. an email account, for some traits, approximate inferences made using behavioural advertising techniques (see below for details). For example, a teacher living in London who has registered on a jobs board may be served advertisements for vacant teaching opportunities in London whilst surfing on that site, even when they are not currently visiting the teaching section.

3 Free social networking and online-networking sites, supported by advertising, had more than 86.6 million global users as of December 2007 (Nielsen Online).

### C. Behavioural advertising

Behavioural advertising involves the creation of audience segments based on websites visited over a period of time. These audience segments are then used to provide relevant advertising to anonymous consumers. For example, a user may visit sports sites often looking for sports scores and thus be added to the "sports fan" segment. This group could then be served advertisements that are relevant to the interests of sports fans. Advertisers may also combine anonymous market research data with other aggregated online behaviour data to create consumer segments for online marketing, a technique known as 'predictive targeting', which also helps make advertising more relevant.

Such advertising may take place on a website or websites controlled by a single entity (first party providers of advertisements) (e.g. via a publisher) or across websites controlled by multiple entities (third party providers of advertisements) (e.g. via an advertising network). Depending on the particular company practice or the business model, the scope and type of data used for providing such behavioural advertising varies, as does the way in which data is collected. For example, a publisher may use data collected on its website, whereas an advertising network may collect data when a user visits the websites participating in that particular network. Finally, a service provider, such as an Internet Service Provider (ISP), software provider, or applications provider, may collect data from some of a user's web browsing activity to provide behavioural advertising.

## 5 Data protection and consumer choices in Internet advertising

More relevant advertising on the Internet takes place mostly through use of anonymous or non-personally identifiable data. Indeed, aggregated, anonymous, or categorised data is key to effective delivery of more relevant advertising. To the extent that personal data is used to further enhance customisation, such practices are subject to the requirements of EU laws, notably the EU Data Protection Directive (95/46/EC) and Member State implementing laws. Thus transparency and meaningful consumer control over customisation practices in connection with personal data currently are addressed through the existing legislative framework. There are a number of certification bodies that companies can approach to earn a seal of quality on their data protection systems, for example the EU Privacy Seal [www.european-privacy-seal.eu](http://www.european-privacy-seal.eu) Privacy Seal under the Data Protection Act of Schleswig-Holstein German Federal Land - [www.datenschutzzentrum.de/faq/guetesiegel\\_engl.htm](http://www.datenschutzzentrum.de/faq/guetesiegel_engl.htm) as well as TRUSTe [www.truste.org](http://www.truste.org)

Leading business practices widely adopted by IAB Europe member companies also provide effective consumer controls regarding more relevant advertising. Regarding behavioural advertising practices in particular, many companies currently offer consumers with notice and opt-out mechanisms, and are exploring the role for additional consumer transparency and choice mechanisms.

In addition, many of these leading practices form the

basis of, and are supplemented by, existing and emerging self-regulatory good practice guidelines. For example, the Network Advertising Initiative (NAI) in the USA. See [www.networkadvertising.org/networks/2008%20NAI%20Principles\\_final%20for%20Website.pdf](http://www.networkadvertising.org/networks/2008%20NAI%20Principles_final%20for%20Website.pdf) Given the speed of technological innovation, the flexibility and adaptability of these leading practices and self-regulatory initiatives, which supplement the existing legislative framework, enable businesses to respond quickly to consumer expectations thus enhancing their online experience.

Broad privacy protections also exist in the form of technological tools that enable consumers to exercise effective control over their online experience. Browser controls enable consumers to exercise control over cookies, and there are many products available – at no cost to consumers – that enable them to anonymously browse the Internet.

Finally, IAB Europe member companies recognise that consumer education is a key component to ensuring that consumers have meaningful choices regarding more relevant advertising. Companies provide notice regarding cookies and advertising practices in their privacy policies, and IAB Europe, national IABs, as well as member companies, continue to explore additional consumer educational channels in accessible language and user friendly formats.

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