Web 2.0 Advertising

Web 2.0 and the End of Advertising

The idea that software on the Web is going to be largely funded by advertising is just so wrong-headed, I hardly know where to start. It had me spluttering in the latest BriefingsDirect Insights analyst podcastadvertising’s epitaph way back in March 2006: “Why build an economy around Attention, when Intention is where the money comes from?
hosted by Dana Gardner — more on that in a moment. Let’s move on from 1.0 notions of the Web as just a publishing medium, with ads on the side. Doc Searls already pronounced what I consider to be ”

Instead of competing to grab attention, the way to sell on the Web is to align your selling proposition with buying intention. The Web makes that easy, because it’s a platform for software automation. So use software to build automation that brings buyers and sellers together on the Web. Not just as a broker that matches deals with no added value, but by putting relevant sellers conveniently at hand at the moment when a buyer is ready to buy, making the discovery and transaction process a smoother, better, cheaper experience for all concerned. I’ll expand below on some examples of how that might happen, but here’s how I summed it up in the podcast (quoting from the transcript):

All consumers get a Free Memberhsip

they can start to Connect in their own local community

“… Join 100milemall.com for FREE"

“… the Web enables people to reach potential consumers and business prospects directly, rather than having to go through this advertising. So, the idea that the software industry is going to get funded by advertising has got it completely the wrong way around. Actually, what is going to happen is that business is increasingly going to use software in order to get closer to its consumers and its prospects. It can actually skip having to spend the money on advertising in order to make that connection.”

I’m not saying advertising will go away completely — I think there’s still room for brand-building and attention-seeking around the fringes of traditional content such as entertainment and information — but software vendors (such as Microsoft, apparently who stake their financial futures on earning the bulk of their revenues from that form of advertising are making a fatal strategic error. Here are three compelling arguments why I believe advertising is going to get sidelined by intention-focussed selling on the Web:

- Advertising is the creation of a disconnected era when businesses needed some way to get a message out to prospective customers that they couldn’t reach directly. The purpose of an ad is to motivate the prospect to get in touch. The Web, as we all know, puts us all in direct, real-time contact with each other, wherever we are in the world. Instead of advertising a message and waiting haplessly for a response, businesses can proactively connect directly with their prospects, reaching out to them in contexts where they’re ready to buy. What counts on the Web is product placement, merchandising and other forms of direct promotion.

- Placing ads in software is the height of absurdity. It’s software for goodness sake — people use it to get things done, not to read ads. Instead of wasting valuable screen space publishing banners and text ads, why not embed some functional links, buttons and menu options that add some value to the task in hand? Cut out the ads and substitute a direct connection to a useful service. Add a pay-per-use clipart library to an online slideshow editor, embed a link to a live tax expert in an online accounting application, build workflow into an online travel booking service that conveniently helps the buyer choose and book flights, transfers, hotel and dinner.

- There will never be enough online advertising in the world to support the software industry, let alone the entire Web. Below is a slide taken from a presentation I gave a couple of years ago to an auditorium full of marketing professionals, called (you guessed it) ‘Web 2.0 and the end of advertising’. While it’s true that software is a smaller industry than advertising, both of them pale into significance when you look at the entire value of the retail industry — or even more if you measure the total value of a year’s global trade. Instead of trying to carve up the bite-sized advertising pie, on-demand providers should claim a slice of all those real-world transactions by making it easier for sellers to find buyers.

This has been a constant theme of mine for several years — this from a November 2005 post titled

Advertising isn’t enough to fund on-demand:

“The world does not revolve around advertising, it revolves around trade. Businesses need to be able to make and sell stuff before they have any money left over to spend on advertising. By definition, therefore, there is far more money to be made from directly supporting businesses in the making and selling of products and services than there is from vying for the small change they have left over for advertising. The majority of on-demand revenues will come not from advertising but either from taking a slice of people’s sales revenues (the Amazon.com and eBay model) or by providing services that help them operate more efficiently (the salesforce.com model).”

Or as Facebook founder and CEO Mark Zuckerberg said last year at the launch of its f8 widget platform: “You can serve ads…or if you don’t want to advertise, you can just sell something.” The trick is, you have to focus on what people will gladly pay for rather than what they’d prefer to get to free. Collaboration vendor BlueTie has been having some success with what it calls ‘featuretisements’, which integrate monetizable services into the workflow of email and calendaring, and the company gets paid by results. As its CEO David Koretz told Dan Farber in February:

“The ad model is flawed for the world of applications … Applications are about workflow; ads are about disruption. Annoying the user won’t lead to the highest monetization — that’s why social networking ads are not successful. Advertisers don’t want to be in an email application, but if you do it right it shouldn’t feel like ads.”

The difficulty faced by vendors wanting to pursue this kind of monetization strategy is that it’s a whole lot harder than simply slipping in a few ads and reaping whatever pay-per-click rate they can levy. There needs to be a reliable infrastructure for measuring whatever is due to each partipant in the partnership, and there needs to be highly effective workflow so that the user experience is seamless and convenient. The ease of funding everything through advertising has meant the giants of Web 2.0 (and many venture-funded startups) have neglected the more sophisticated infrastructure needed to support such functionality.

Therefore, as I’ve mentioned towards the end of this week’s BriefingsDirect podcast, the technology is not as mature as it ought to be and vendors will face obstacles as they move ahead with the model. But its time will come, as surely as conventional Web advertising’s inadequacy and irrelevance will soon become clear.

source: Phil Wainewright

Conventional Web advertising’s inadequacy and irrelevance will soon become clear.

Phil Wainewright is a commentator and strategist on emerging software industry trends. See his full profile and disclosure of his industry affiliations.

Email Phil Wainewright