TV Advertising: Why Web Firms Love It, Hate It

AFTER BLOWING BILLIONS of dollars on advertising during the dot-com boom a few years ago, Internet companies should have arrived at some consensus on whether TV commercials work for them or not, right?

They haven't. Just look at the Internet's two best-known companies. Auction site eBay Inc. is spending more than ever before on TV ads. Meanwhile, Amazon.com Inc. recently pulled the plug on all TV commercials for the foreseeable future.

The opposite strategies point to the mixed emotions Internet survivors feel for a form of advertising once seen as their ticket to fame with consumers and investors. After the bursting of the Internet bubble came a dormant spell for dot-com commercials. But now, among most big online companies, TV advertising is making a comeback.

Last year, spending on TV ads by the top dozen Internet companies—including Amazon, eBay, travel site Expedia Inc., Yahoo Inc., AOL Time Warner Inc. and others—jumped 29% from 2001, compared with an increase of just 7.8% for TV advertising overall, according to CMR, the ad-tracking unit of Taylor Nelson Sofres PLC. The increase in their TV spending also was faster than the 6% rise in their online advertising last year.

"The biggest players have come back in a very big way" to television advertising, says Bev Andal, CMR chief operating officer. Not surprisingly, in absolute dollars, dot-coms' TV spending is nowhere near where it was a few years ago, reflecting the thinner ranks of Internet companies and their acceptance of other forms of marketing. Some skeptics of TV say they prefer advertising online for one simple reason: Everyone who sees your ad has access to your service. Netflix Inc., a DVD-rental service, has tested TV commercials in several cities but it says acquiring subscribers that way is still too expensive.

"When you advertise on TV," says Reed Hastings, Netflix's chief executive, many people "who see the ad don't use the Web at all, and therefore can't use your service."

The hefty rebound in TV ad-spending is partly a sign of how far it plummeted after the Internet bubble burst. According to estimates, Internet companies' spending on TV commercials exceeded $1.2 billion in 1999—a time when there was a gusher of money from investors and little care for profits. For the 2000 Super Bowl, OurBeginning.com Inc., a now-defunct wedding-invitation company, spent $10 million. Given how much TV advertising costs, "you need a very big hit," says Bill Loeper, chief executive of In Five Minutes, a New York Web advertising agency.
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pany, spent almost $5 million on commercials—five times its TV revenue. Last year, the top dozen Internet companies spent about $181 million on TV advertising, a tiny sliver of the $51.9 billion in total TV advertising, CMR says.

Still, Internet companies that sat out the TV advertising bacchanal a few years ago now are going ahead full-bore. EBay, for instance, spent $14 million during the fourth quarter of 2002 to air commercials featuring the slogan “Do it eBay” set to the tune of the Frank Sinatra classic “My Way.”

The campaign was a success, eBay executives say, judging by the number of new users it brought to the auction site and the number of inactive users who were prompted to bid again. EBay says it plans to advertise on TV at least for the rest of 2003, declining to disclose spending. It plans to start airing a new campaign for its eBay Motors car auction site.

EBay has long had the financial wherewithal to advertise on TV, but even two years ago there wasn’t enough Internet acceptance among TV viewers to justify a major campaign, executives say. These days, about 62% of U.S. homes have Internet access; only 46% did in 2000, according to research firm eMarketer Inc. “Internet penetration has increased enough that [TV advertising] makes sense,” says Gary Briggs, vice president of consumer marketing at eBay, which also advertises heavily online and in magazines.

Amazon came to different conclusions. Like eBay, it ran TV commercials over the holidays. According to CMR, Amazon spent a little over $5 million to air spots poking fun at the hassles of mall shopping. But Amazon says it recently decided to drop TV ads because other forms of marketing have more impact on business:

free shipping and price discounts.

After testing TV ads in various parts of the country for the past year, Amazon realized “that spending money on improving customer experience by dropping prices is definitely more effective than spending the same amount of money to do advertising on TV,” said Diego Piacentini, Amazon’s senior vice president of world-wide retail and marketing.

Amazon has plowed the dollars once reserved for advertising into free shipping on orders of $25 or more, an offer Amazon put in place last year and has since credited with boosting sales. Last year, free shipping increased Amazon’s direct losses from shipping to $40 million from $19 million the prior year. The company forecasts $10 million in shipping revenue this year because of free-shipping offers.

Amazon will still advertise on the Internet and in Sunday newspaper inserts. Mr. Piacentini says the company isn’t opposed to TV advertising in the future. The change is “about deciding which basket we put our eggs in,” he says.