

How internet marketing has changed over the years and what the future will bring

William Perttula, PhD

Internet Marketing Professor,

College of Business, San Francisco State University

(William Perttula interviewed by Theodor Valentin Purcărea)



Abstract

The trend toward internet marketing has been going on since the internet went graphical in 1993 and Amazon began selling online in 1995. There is near universal awareness of this general trend but a large percentage of organizations are far from doing an effective job of using the internet to achieve success. This includes nonprofit organizations and government as well as for-profit companies.

William Perttula made his first online purchase in 1995 and began teaching about internet marketing in 1999 at San Francisco State University. Over the last dozen years he has taught undergraduate and graduate students in South Korea, Denmark, France and Germany in addition to his students at SFSU. His work inside and outside the classroom has brought him into contact with many professionals in Silicon Valley and others in the high tech field. He moderated a panel in 2010 on *Social Media and Cloud Computing* for the San Francisco Chamber of Commerce that had panelists from Microsoft, AT&T, and Salesforce.com.

Key Words: Internet marketing, social media marketing, mobile advertising

JEL Classification: M15, M31

HMM Journal recently asked Professor William Perttula about how internet marketing has changed over the

years and what the future will bring.

T.V.P.: First, please give us a definition of internet marketing so we are clear on what the term means.

W. Perttula: Internet marketing ties together both the creative and technical aspects of the internet, including design, development, advertising and marketing. Internet marketing includes such methods as search engine marketing, display advertising, e-mail marketing, affiliate marketing, social media communications, and interactive advertising. The old term of integrated marketing has come to include these internet marketing methods to describe how a modern, effective organization conducts its activities with its target audiences.

The key characteristic of the internet is the internet protocol (IP) developed in the seventies to allow information to be broken down and assembled into packets that are sent over cables and wirelessly. Most people have experienced this information on web pages inside of a web browser such as Internet Explorer, Firefox, or Chrome but there are email programs and other software that use the digital packet architecture of the internet with no need for a browser. For example, users of smartphones are familiar with using text messaging (SMS) and applications (apps) which run outside of a browser yet still run on the internet using the internet protocol.

T.V.P.: Some years ago we read many accounts of how the internet has changed all the principles or rules of marketing. How accurate have those accounts been?

W. Perttula: Based on my experience over the last 35 years in marketing I would say that use of the internet has made marketing *cheaper* and *faster* but has not changed any marketing principles. One must still find a customer demand for a product or service and satisfy that demand at a profit in order to have lasting success. There have been hundreds of examples of companies that have satisfied a customer demand as shown by millions of users but these companies could not make a profit and eventually disappeared when the investor money ran out.

A very significant change in internet marketing has occurred in the last three to four years as much higher bandwidth speed has come to many more people. As speed has increased the price per megabit to users has fallen year after year. This higher speed, on both wired computers and wireless smartphones, has meant that more elaborate and effective messages can be sent to and received from customers. This has resulting in increased use of the devices by their owners. This use includes uploading of text and graphics and video to sites such as Facebook and YouTube. The price of higher bandwidth has been trending toward zero for two decades. There are several ways to measure bandwidth speed but they are correlated with each other. The Akamai table below shows how high bandwidth capability exists in developed and less developed countries and countries in Asia and Europe and North America.

Table from the Akamai 2Q 2012 *The State of the Internet Report*

Country	Q2 '12 Peak Mbps	QoQ Change	YoY Change
— Global	16.1	19%	44%
1 Hong Kong	49.2	-0.2%	11%
2 South Korea	46.9	-1.9%	31%
3 Japan	40.5	2.4%	28%
4 Romania	38.6	-0.6%	15%
5 Latvia	33.5	—	14%
6 Switzerland	29.9	4.3%	25%
7 Belgium	29.5	1.1%	10%
8 Singapore	28.3	-1.1%	36%
9 Hungary	28.0	0.3%	15%
10 Bulgaria	27.9	1.7%	17%
...			
13 United States	27.1	-5.4%	24%

Figure 10: Average Peak Connection Speed by Country

T.V.P.: What about social media and social marketing? Are they just fads and should they be used by every organization?

W. Perttula: Any discussion of holistic marketing management must take note of social media and social media marketing. Social media is dominated in 2013 by Facebook after its explosive growth to one billion registered accounts world-wide from its inception in 2004. Other big names in social media are YouTube (owned by Google), Twitter, Tumblr and LinkedIn. Social media marketing is the use of social media in its various forms by organizations trying to communicate with their customers or clients. Social media includes status updates, tweets, social bookmarks, video sharing, and social media’s photo commenting.

The following table shows the dramatic growth of Facebook in a three year period.

Top 3 Social-Networking Websites

by U.S. Market Share of Visits %

February 2008			February 2011	
MySpace	41%	→	Facebook	64%
Facebook	8		YouTube	19
YouTube	7		MySpace	2

Source: Experian Hitwise

Social media marketing relies on its similarity to word of mouth marketing which has always been praised for its effectiveness. Trust and believability are usually characteristics of word of mouth communications. Word of mouth communications usually have great effectiveness but in the past have taken too long to reach a large enough number of customers for businesses that are trying to grow quickly. It is a very rare product or service that can grow at 30 to 40 percent a year relying on its customers or users to praise it to friends in person or by

telephone. Rapid sales or usage growth in the past had to rely on mass advertising to reach mass audiences at great expense. But with social media it is possible to reach large numbers quickly and cheaply with words and pictures. Let us look at three examples.

Dropbox, a web based file hosting service, is a recent startup that benefited from universal electronic communication techniques and avoided mass advertising. Dropbox began in 2008 with a file storage service (in the cloud) that was simple to understand and that worked quickly and reliably. The company encouraged electronic word of mouth by giving existing users who referred a new user more free storage for their files. Publicity, which is free, in the major tech magazines and other media contributed greatly to *Dropbox's* growth to 50 million users in 2011 after just three years of operation. *Dropbox* grew rapidly despite not using advertising. It quickly dropped advertising on Google with Google Adwords text ads after discovering that it was costing Dropbox about \$300 per new user for a service that was free to users who needed only 2 Gb of file storage. Dropbox charges its users for the service if they store more than 2 Gb of data on the Dropbox servers. Reportedly the private company became profitable after just one year and is planning to have its initial public offering of stock in 2013.

Facebook is a service that does not charge its users for its central service of enabling the sharing of personal information and pictures. It obtains about 85% of its revenue from placing advertising on its web pages with most of the remainder coming from Zynga, a game provider that works inside of Facebook, and, more recently, game providers Wooga.com and King.com. The Facebook service of providing an easy to use, multi-media communications platform for hundreds of millions of people brings in relatively little money per user. If we divide its total revenue of \$4.62 billion in 2012 by 1 billion users, we see that Facebook has revenue per user of just \$4.62 per year or \$0.39 per month. Also, Facebook's average revenue per user (ARPU) growth from 2010 to 2011 was 26 percent but just 6 percent from 2011 to 2012. Facebook has shown small profits over the last four quarters but its operating margins appear to be shrinking. The future does not look particularly bright for Facebook's revenue growth because users are moving more to mobile devices which have screens too small to effectively display the advertisements that Facebook relies upon for revenue. Companies are being asked to shift from display ads used on full sized web pages to sponsored news feed messages on the mobile version of Facebook. Results from 2012 show revenue growth from mobile ads but this growth may be short-lived. Facebook is also experimenting with ways to charge users for specific actions such as sending messages to nonfriends or pushing one's news feed post to the top of one's friends feed for \$7. Membership growth appears to have ended in the United States where the vast majority of Facebook's revenue comes from but continues in some parts of the rest of the world where the majority of users do not have smartphones capable of working well with Facebook.

Compare this business model to another social networking business that began the year before Facebook: *LinkedIn*. LinkedIn is a social network focused on business professionals and their networking needs. With 200 million users, mostly in the United States, it is much smaller than Facebook but more focused, which is a good thing in marketing terms. LinkedIn charges businesses to sift through its database to look for possible employees, and the company became profitable years ago with its combination of advertising and direct charges. Use of the basic networking service is free to members but there are some premium services for which LinkedIn charges \$20 per month. Continuous high revenue growth and profits set LinkedIn apart from the other major social networking businesses.

***T.V.P.:* What has happened to advertising since the development of web browsers for the internet twenty**

years ago?

W. Perttula: Advertising is a major part of communications, the most visible component of a company's marketing mix. Marketers define advertising as paid-for presentations of a product or service by an identified sponsor. The big consumer products companies may spend one to two billion dollars a year to create and send advertising messages to consumers. World-wide about \$500 billion is spent on advertising.

The last eight years has seen a significant shift toward customer driven social media messages in contrast to company driven messages sent out to mass markets. Often this means that companies are spending money on nontraditional or nonmeasured media to reach customers. Advertising spending in newspapers and magazines, for example, has fallen every year for eight years in the United States. But there has been healthy growth in the digital arena which now accounts for about 20% of total advertising spending. ZenithOptimedia predicts that global internet advertising will grow by 14.6% in 2013 compared to just 1.7% for traditional media. Search marketing, dominated by Google, takes half of all the advertising dollars spend on internet marketing.

Marketers debate whether internet advertising's objective should be to raise customer awareness or lead to direct action or purchase by the customers. In the past the awareness side came from display advertising such as magazine ads or television commercials. Today, awareness (or buzz) is thought to be achieved more through "likes" on Facebook or mentions on Twitter. In the past the direct action came from techniques such as tele-marketing, direct mail, or coupons. Today direct action comes from the customer clicking on a link and taking action or making a purchase.

Recent research (Optify 2012) shows that in the business to business field social media is a very small player with regards to finding customers. Advertising by use of search engine keywords and email messages are far more effective than social media. Social media accounts for just 5 percent of total leads to B2B websites. And, Twitter is the main source of leads outperforming Facebook and LinkedIn 9 to 1.

The trend for B2C and B2B is away from big budget advertising campaigns and toward more focused advertising supplemented with relatively inexpensive social media marketing. Social media promotion can be effective at low but not zero costs. All experts in social media advocate having certain employees dedicated to be active in Twitter, Facebook, LinkedIn, and possibly other media.

Mobile advertising is the real battleground in 2013-2014. The use of smartphones with the capability of displaying text and graphic advertising is growing rapidly in every country. Advertising budgets devoted to mobile devices are tiny but growing. The small screen on a phone or small tablet creates huge problems for advertisers compared to the typical desktop or laptop screen.

Optify 2012 B2B Marketing Benchmark Report <http://www.optify.net/>
