Online ads take off - Again mainstream marketers are hiking their Internet ad spending
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It was the day the Big Mac went digital. On Apr. 10, at an ad industry confab in New Orleans, McDonald's Corp. announced plans to shift advertising dollars from TV to the Internet. "It's all about the customer," says Neil Perry, senior director for national marketing on the Internet at McDonald's. "If they're not glued in front of TV sets and instead are online, then we've got to be there."

A turnaround in online marketing is in full swing. After tumbling 18% in 2002, ad revenues are expected to rise 12% this year, to around $6.6 billion, as traditional advertisers such as McDonald's start opening their wallets. Even as they often struggle to master the new medium, the biggest U.S. companies, from Estee Lauder Cos. to General Motors Corp., now make up 11 of the top 25 Net advertisers, up from 5 in 2000, according to researcher Nielsen/NetRatings. And while online advertising accounts for just 4% of overall U.S. ad revenues, the steady increase in spending by marketing giants is helping Internet publishers flourish. In April, Yahoo!, DoubleClick, and New York Times Digital reported better-than-expected earnings. AOL Time Warner Inc. remains the glaring holdout, as the company struggles to reorganize its ad business in the wake of federal investigations. On Apr. 23, AOL said that quarterly online ad revenues plunged 42%, although it expects to sell more ads this year than last.

Why the sudden interest? After dot-com ad money dried up two years ago, online publishers scrambled to cater to traditional advertisers, offering zippier technology, dedicated ad teams, and better tools for measuring results. MSN, The Wall Street Journal, and The New York Times now offer their opening screens to single advertisers, mimicking full-page spreads in newspapers. And they're finding takers. In January, Coca-Cola Co. painted MSN's home page cherry red for a week -- and attracted a million visitors to its own Web site.

Lower ad prices, which fell 60% in 2001 and 2002, also are helping to fuel the frenzy. And the placement of ads near Internet search results has exploded on Google, MSN, and Yahoo. Paid search is expected to make up 33% of online ad revenue this year, up from 7% in 2001. And why not? At an average 35 cents per click, paid search is a lot cheaper than the $1-per-lead average for Yellow Pages listings. Peter Weedfald, Samsung Group's vice-president for strategic marketing, estimates that reaching 1,000 people online is about 50 times less expensive than doing it on TV. The company now spends 10% of its advertising budget online, up from about 1% in 2001.

Some companies even manage to build their brands online. When Dutch financial-services firm ING Group launched its brand in the U.S., a flurry of TV and print marketing was paired with innovative online ads. In one campaign on financial news sites smartmoney.com and Fool.com, all the "ing"s in the news text turned orange -- matching ING's corporate color. This kind of creativity gets results: According to an ING survey, after one online ad, 35% of people who saw the marketing message said they planned to use ING's services. This year, ING is spending 15% of its marketing budget online, up from 5% in 2001.

The clincher for many traditional advertisers is simply that the people they want to reach are spending more leisure time online. Long-time Net surfers spend 10 hours a week watching TV -- 36% less than someone who isn't online, according to The UCLA Internet Report released in January. And on average those with Net access spend 11.1 hours each week online, up from 9.4 hours in 2000.

Still, connecting with cybercustomers involves learning as much about culture as it does about click-throughs. In a two-month test last winter, GM tracked users on the nonautomotive sections of Yahoo and ESPN. It turned out that while ESPN surfers clicked on the car ads, the Yahoo crowd avoided them. "For whatever reason, within the confines of the Yahoo walls, people weren't

responding," says Stacey Flynn, media director at GM's ad agency Zentropy Partners. The lesson? These new online markets, while full of promise, still maintain their share of mystery.

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