

FUNDAÇÃO GETULIO VARGAS  
SÃO PAULO BUSINESS ADMINISTRATION SCHOOL

GUILHERME SZYSZKO PITA

INTERNET SHARE OF ADVERTISING EXPENDITURE:  
GROWTH DRIVERS AND INHIBITORS IN THE BRAZILIAN MARKET

SÃO PAULO

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Thesis presented to Fundação Getúlio Vargas' São Paulo Business Administration School as a requisite to obtain the Master's Degree in Business Administration.

Research Field: Strategies in Marketing.

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## **ABSTRACT**

Internet advertising spending as a percentage of total advertising expenditure varies significantly from one country to another. The figure is as low as 4.7% in the Brazilian market and as high as 28.5% in the British market (ZenithOptimedia, 2011b). A few reasons explain such disparity. At the macro level, Internet share of advertising spending is strongly connected to variables such as gross domestic product per capita and Internet penetration within the population. At the micro level, qualitative research has been done to identify drivers and inhibitors of Internet share of advertising spending growth in the Brazilian market.

The vast list of inhibitors appears to have deeper impact on how market professionals make decisions of advertising investment allocation per media type. Due to regulation, self-policing and industry dynamics, much of the decision-making authority is performed by advertising agencies. These appear to have strong economic incentives to select other media types than Internet when defining media plans. At the same time, regulation and self-policing provide disincentives for companies known as media brokers to operate in the local market. The lack of qualified professionals and the limited standardization also play important roles to inhibit a higher Internet share of advertising spending in Brazil.

The convergence of the quantitative results with the qualitative findings indicates possible outcomes to why Internet share of advertising spending in Brazil is so low. Firstly, the share is explained by the development stage of countries. The richer and the more developed a country is, the higher the Internet share of advertising spending tends to be. Secondly, the economic emerging stage of Brazil potentially gives room to the raising of market inefficiencies such as disproportionate rebate programs offered to key decision makers of media budget allocation. This fact apparently produces a negative feedback, contributing to keep the Internet share of advertising spending low in the overall advertising spending.

## RESUMO

Os investimentos com publicidade na Internet como uma percentagem das despesas totais de publicidade variam significativamente de um país para outro. O número é tão baixo quanto 4,7% no mercado brasileiro e tão alto como 28,5% no mercado britânico (ZenithOptimedia, 2011b). Algumas razões explicam tal disparidade. No nível macro, a participação dos gastos com publicidade na Internet está fortemente ligada a variáveis como o produto interno bruto per capita e à penetração da Internet na população. No nível micro, uma pesquisa qualitativa foi feita para identificar os fatores que contribuem e inibem o crescimento da participação da publicidade online no mercado brasileiro.

A vasta lista de inibidores parece ter profundo impacto sobre como os profissionais de mercado tomar decisões de alocação de investimento em publicidade por tipo de mídia. Devido à legislação, à auto-regulamentação e às dinâmicas da indústria, grande parte da tomada de decisão é realizada por agências de publicidade. Estas parecem ter fortes incentivos econômicos para selecionar outros tipos de mídia e não a Internet ao definir planos de mídia. Ao mesmo tempo, a legislação e a auto-regulamentação fornecem desincentivos para corretores de mídia a operar no mercado local. A falta de profissionais qualificados e a padronização limitada também desempenham papéis importante para inibir uma maior participação da Internet nos gastos com publicidade no Brasil.

A convergência dos resultados quantitativos com os qualitativos indica possíveis motivos pelos quais a participação da publicidade online no Brasil é tão baixa. Em primeiro lugar, a participação é explicada pelo estágio de desenvolvimento dos países. Quanto mais rico e mais desenvolvido um país, maior a proporção de gastos com publicidade online tende a ser. Em segundo lugar, o estágio econômico emergente do Brasil potencialmente dá espaço para o aumento das ineficiências do mercado, tais como programas de descontos oferecidos de forma desproporcional para os principais decisores de alocação de investimentos de mídia. Este fato aparentemente produz um *feedback* negativo, contribuindo para manter a baixa participação da publicidade online no total dos investimentos publicitários.

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# 1 INTRODUCTION

## 1.1 Theme

Advertising is a paid, mediated form of communication from an identifiable source, designed to persuade the receiver to take some action, now or in the future (Richards and Curran, 2002). The modern advertising evolved with the emergence and consolidation of mass production at the end of the nineteenth and early twentieth century. Mass production required mass consumption, and advertising helped make this possible (Hudson, 2008). The placement of advertising is an investment made by advertisers and usually occurs in non-personal communication channels, or media (Kotler and Armstrong, 2003). Examples of major kinds of media are newspapers, magazines, radio, television, cinema and the Internet, with its websites and online services.

Since its emergence as a new media type in the 1990s, the Internet has attracted millions of people looking for entertainment, education, research, general information, work, communication with others, among many other purposes. The Internet has attracted advertisers too – companies seeking to expose their brand and product to those millions of people around the world. Advertising revenues ended up being the main or the sole source of revenue of many websites. Internet advertising expenditure worldwide totaled US\$ 2.2 billion in 1998. The figure dramatically soared to US\$ 63.0 billion in 2010, a 28-fold increase. During the same period overall advertising spending worldwide increased only 49%. Research analysts forecast Internet advertising expenditure to achieve US\$ 94.5 billion by 2013 (ZenithOptimedia, 2011b).

In Brazil, Internet advertising spending also enlarged significantly over the last decade, as occurred in many other countries worldwide. But not as much in proportion to overall advertising spending as in countries like the United Kingdom (UK) or South Korea. Internet

share of advertising spending in Brazil was a shy figure in 2010 – only 4.7%. In South Korea it was 18.1%, while in the UK it was 28.5% in the same year (ZenithOptimedia, 2011b).

## 1.2 Research question and objectives

This thesis aims to answer the following general research problem:

- Which are the factors that influence the current low Internet share of advertising expenditure in the Brazilian market?

Derived from the general problem, secondary research questions will be objects of study throughout the text. This research will compare countries' data and investigate relations of Internet share of advertising spending to macroeconomic indices related to wealthy and living conditions of countries' populations. While it is natural to expect Internet advertising expenditure to be proportional to the size of Internet audience, other indicators may be related to it. The quantitative phase of the research<sup>1</sup> will explore the relations of Internet share of advertising expenditure to a list of variables. That leads this thesis to a secondary, supporting research question:

- How is the Internet share of advertising expenditure related to macroeconomic indices of wealthy and living conditions?

Finally, the qualitative phase of the research will investigate growth drivers and inhibitors of Internet share of advertising spending particular to the Brazilian market as perceived by industry professionals. This thesis has then another secondary research question, which is:

- Are there barriers for the growth of Internet advertising expenditure in the Brazilian market?

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<sup>1</sup> Section '3. Method and empirical procedures' covers the research methods used in this thesis.

### 1.3 Relevance

Brazil had the eighth largest gross domestic product (GDP)<sup>2</sup> in the world in 2010, based on purchasing power parity (PPP)<sup>3</sup> [International Monetary Fund (IMF), 2011]. Comparable to the size of its economy, Brazil's advertising expenditure was the seventh largest worldwide in the same year. Advertising expenditure in such context should be understood as the total amount of advertising investments made by companies. Throughout this thesis, all advertising expenditure figures refer to major media<sup>4</sup>. In the upcoming years, Brazil is expected to be one the biggest contributors to advertising spending growth in the world (ZenithOptimedia, 2011a and b). The reason lies in the emerging stage of the country's economy and its development opportunities ahead<sup>5</sup>. Advertising expenditure growth is naturally aligned with GDP growth. As enterprises expand their businesses and produce more goods and services, they tend to spend more in advertising.

When it comes to Internet advertising spending, Brazil ranked only 15<sup>th</sup> in 2010, despite being one of the top ten largest advertising markets in the world. FIGURE 1 shows how Internet advertising expenditure evolved as a percentage of total advertising expenditure since 2003, the first year it was measured in Brazil. The graph also contains forecast figures for the period ranging from 2011 to 2013. All the way through the end of this text such percentage will be referred to as the 'Internet share of advertising spending'. The Internet share started as low as 1.5% in 2003 and it is in the path to reach 5.4% in 2013. FIGURE 2 compares the progression of total advertising spending and Internet advertising spending, also in the Brazilian market. Unmistakably, Internet escalates faster than the total

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<sup>2</sup> Gross domestic product is a widely used measurement of the market value of all goods and services produced within a given country in a fixed period. GDP per capita is the division of GDP by the resident population of a given country. GDP is commonly denoted as an indicator of wealthy, size of economy and standards of living.

<sup>3</sup> There are two basic calculations of GDP and GDP per capita. Calculation at purchasing power parity (PPP) takes into account the relative cost of living and the inflation rates of the countries. Nominal calculation uses just exchange rates which may distort the real differences in income. In this research, GDP at PPP and GDP per capita at PPP are preferred, as the key variable under study, advertising expenditure, is non-tradable between countries and therefore not subject to exchange rate fluctuations.

<sup>4</sup> Television, newspapers, magazines, radio, cinema, outdoor, and Internet. Other advertising spending categories include direct mail, telemarketing and event sponsorship. Those will be not considered throughout this research.

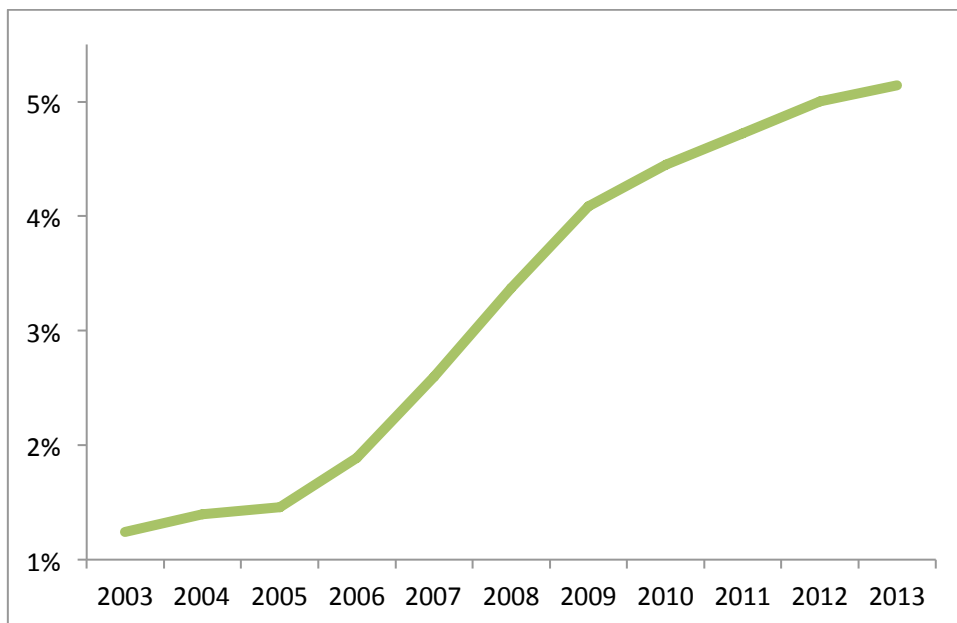
<sup>5</sup> See Wilson and Purushothaman (2003) classic *Dreaming With BRICs: The Path to 2050* for a comprehensive view of growth and development opportunities of Brazil, Russia, India and China in the upcoming decades.

advertising spending after 2006, as it matures as a relevant media type for advertising investment. Whether Brazil's Internet share of advertising spending will get closer to those of South Korea or the UK is uncertain. Nonetheless, the discrepancy between what happens in Brazil and in those countries deserves attention – of both industry professionals and academic researchers.

Internet advertising spending should be the sum of *display* advertising spending and *search* advertising spending. Definitions and distinctions of both will be covered in section 2. At this stage of the research, it should be worthwhile to remark that data of search advertising spending is less available than data of display advertising spending. In many countries search advertising spending is not even reported or measured. This fact means the research will face some limitations, described in more details in section 5.3.

**Figure 1: Evolution of Internet advertising spending as a % of total advertising spending in Brazil**

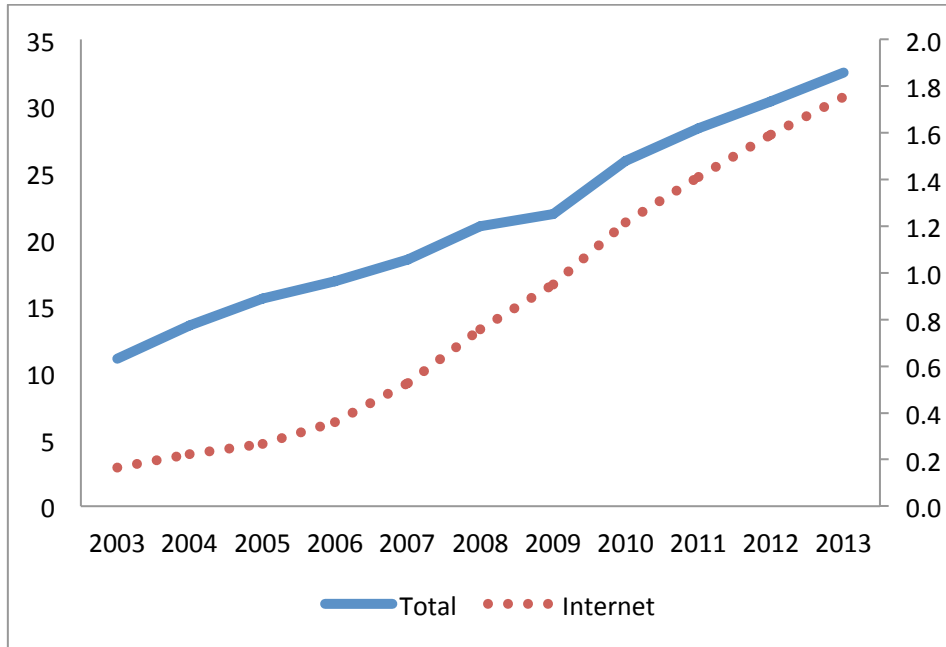
Values of years 2011 through 2013 are forecasts.



Source: ZenithOptimedia, 2011b.

**Figure 2: Evolution of advertising spending in Brazil (R\$ million at current prices)**

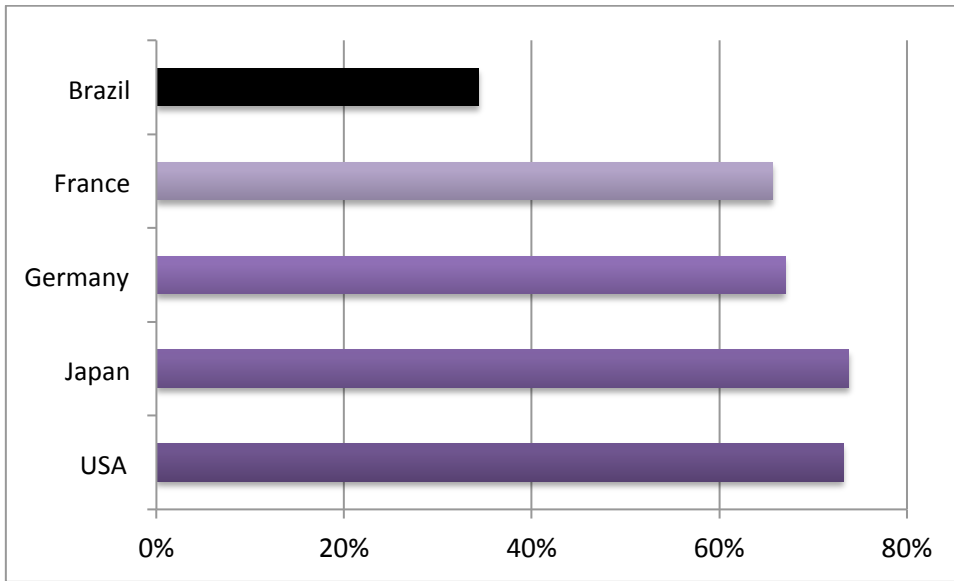
Values of years 2011 through 2013 are forecasts.



Source: ZenithOptimedia, 2011b.

The population that accesses the Internet in the country is significant in absolute size, but still timid in penetration in the general population. There are about 66 million Internet users in Brazil. This number is larger than the numbers of Internet users in France or Germany, for example, which have respectively about 36 million and 50 million Internet users. However, the penetration of Internet users in the general population is about 34% in Brazil, against 66% in France and 67% in Germany. FIGURE 3 shows a comparative graphic of Internet penetration in Brazil and some developed countries (Internet World Stats, 2011).

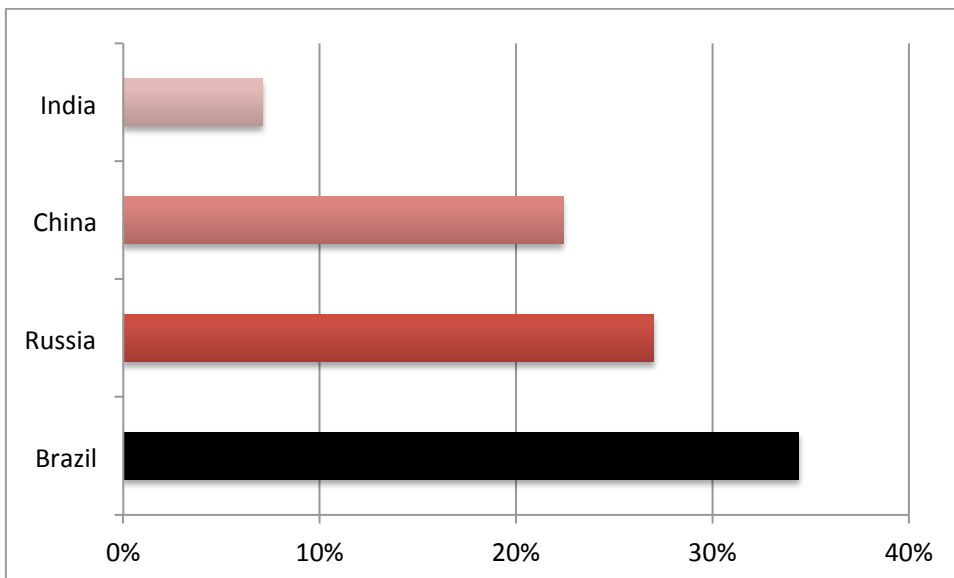
**Figure 3: Internet penetration in the population – comparison with developed countries**



Source: Internet World Stats, 2011.

In comparison to China and Russia, the penetration of Internet users in the general Brazilian population is slightly higher. China has about 22% of penetration and approximately 360 million Internet users. Compared to India, the penetration in Brazil is far superior. Internet access in India is still restricted to about 7% of the population. FIGURE 4 compares the penetration of Internet among these countries (Internet World Stats, 2011).

**Figure 4: Internet penetration in the population – comparison with India, China and Russia**



Source: Internet World Stats, 2011.

The subjects of Internet audience size and Internet advertising spending amount often arouse the interest of Brazilian specialized media. Searches for news mentioning the terms “investimento publicitário”<sup>6</sup> and “Internet” from January 1<sup>st</sup> to June 30<sup>th</sup>, 2011, on the online versions of the periodicals *Meio & Mensagem*<sup>7</sup> and *Exame*<sup>8</sup> returned hundreds of results each. However, the approach of the subject with an academic bias in Brazil is unusual. No articles were found with the term “investimento publicitário” in the search engine for published articles from *Revista de Administração de Empresas (RAE)* website. Articles found with the keyword “Internet” had no relation with advertising. The same absence of results was seen in the *Associação Nacional de Pós-graduação e Pesquisa em Administração (ANPAD)* website<sup>9</sup>. Restrictions on period of publication were not applied in these searches.

#### 1.4 Structure of the thesis

This thesis has a total of five sections. The present section is the *Introduction*, containing the theme, the research question and its relevance. The second section covers the *Literature Review*. The third section, *Method and Empirical Procedures*, details the mixed quantitative and qualitative approach employed in the research. Following, *Analysis of Results* brings the outcomes of the research, including data from the quantitative phase and excerpts from the qualitative phase interviews. The thesis is concluded with *Final Remarks* in the fifth section, along with suggestions for future research and the limitations of this thesis.

*References* and *Appendix* come at the end with the list of works and data sources used throughout the thesis and the protocol used in the in-depth interviews, respectively.

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<sup>6</sup> Portuguese translation for “advertising investment”.

<sup>7</sup> The weekly periodical *Meio & Mensagem*, a traditional vehicle aimed at professionals involved in the Brazilian advertising business, has an online version at the address [www.mmonline.com.br](http://www.mmonline.com.br). This version features an online search engine for news and articles previously published.

<sup>8</sup> Published since 1967, the biweekly magazine *Exame* is one of the leading business publications of general interest in Brazil. Its online version at [exame.abril.com.br](http://exame.abril.com.br) features a search engine for news and articles previously published.

<sup>9</sup> RAE and ANPAD are two of the leading business administration academic publications in Brazil. Searches were conducted in April 2011 at the [rae.fgv.br](http://rae.fgv.br) and [www.anpad.org.br](http://www.anpad.org.br) websites.



## 2 LITERATURE REVIEW

### 2.1 On the business and role of media companies

The primary business of a media company is advertising. The media company creates audience in order to sell it to companies and organizations that are seeking exposure for their products or messages to consumers. The composition of the audience is as important for the advertiser as its size, especially in demographic aspects. A television program, for example, may attract the audience of females between 18 and 34 years primarily, and this is valuable to the advertiser who wants to communicate with this audience segment (Goertler, 1993).

The generic relation between audience and advertising investment can be understood by the interconnection between the demand for advertising space and the demand for audience:

*In a fundamental sense, what advertisers are looking for, and what various communication mediums provide, are units of audience for messages of advertising. Thus, the demand for space in the printing media and for time in the broadcast media is a demand produced and caused by a demand for audience, and it is a positive function in the size and in the quality of the audience (Ferguson, 1983).*

Therefore, media companies operate as audience-makers (Evans, 2003). An audience is consisted of viewers. It may be more usual to associate certain kinds of media terms such as users, readers, viewers or listeners rather than spectators. On television, for example, the most common is viewer. In the print media, reader. Viewers access and consume programming and content produced by media companies generally for free. There are media types, however, that charges access to content for viewers. Some examples are: paid television channels, in which the viewer is also a subscriber and pays to watch the

programming; newspapers and magazines sold at newsstands and bookstores or by subscription; certain websites that charge for content availability. Advertisers pay for making their advertisements visible to those viewers who access the content for free or at a price.

One can classify media vehicles in terms of the economic concepts of *excludability* and *rivalry*. Excludability is understood as the possibility of excluding a consumer for their inability to pay for the consumption of a good or service. Pay television channels are excludable. Broadcast TV channels are non-excludable. Rivalry occurs when, for example, a person consuming a good or service prevents the consumption of the same good or service by another person. More than one person cannot read a single copy of a magazine simultaneously; therefore, this magazine is an example of a rival product. Conversely, the access to a website by a person does not prevent concurrent access by another person. This website is an example of non-rival product. A website can be non-rival and non-excludable, when access to its content is free and open, or non-rival and excludable, when access to its content is paid for (Mankiw, 2005).

Another way of understanding the function of media is to characterize them as two-sided markets. A two-sided market attracts two or more interdependent and customer groups. One of the benefits it brings to participants is the reduction of search costs. Publishers work as an advertising platform. They attract viewers, create an audience and reduce advertisers' search cost of consumers (Rochet et Tirole, 2003).

Ludwig (2000) describes the *essential economic problem* of media companies as a situation when revenue from sales is insufficient to cover costs due to not enough market demand. That leads companies to seek supplemental revenue possibilities such as advertising. A typical situation would be a magazine sold at \$1.00 in a newsstand while its unit costs of production sum \$2.00. If revenue per unit is \$4.00, the firm is able to cover all costs and make a profit, characterizing the economic term *cross-financing*.

Some media types have larger portions of fixed costs than others. To those, cross-financing through advertising is still more critical to overcome the essential economic problem. Consider broadcasted television companies, for example. The costs to produce

programming and broadcast it to viewers are vastly fixed costs. Viewers at the same time do not pay to consume broadcasted TV channels neither they are excludable. Then, an imperative condition for commercial broadcasted television companies is to generate revenue through advertising. There are exceptions, though. Public broadcasted TV channels may receive funding from individuals through donations or through direct funding by state governments.

Much of this theoretical background applies to Internet as a media type and to Internet advertising, generally speaking. The two major categories of Internet advertising are *display advertising* and *search advertising*. Display advertising comprises many kinds of graphical advertisements (or, in short, ads) that occupy a portion of a webpage. Those ads can have static or animated forms and sometimes can even extrapolate the predetermined area of exhibition within the webpage to call user's attention. Search advertising encompasses sponsored links that appears alongside ordinary results after a search for a particular word, term or phrase in a search engine like Google is performed. The largest portions of Internet advertising spending are either display or search advertising. Other varieties of Internet advertising are classified listings and email-based advertising, both not as relevant in spending as display and search (Evans, 2008).

## 2.2 On the effectiveness of Internet advertising

Drèze and Hussherr (2003) investigated the effectiveness of display advertising in the format of *banners*. In this context, banners are standard formats for display advertising that divide the space of a webpage with other non-advertising materials (the text of an article, for example). The research was sponsored by a French company<sup>10</sup>, which is the owner of an Internet portal whose main source of revenue is online advertising. Some of the hypotheses tested by the authors are:

- Internet users avoid looking at advertisements in banners formats;

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<sup>10</sup> The company is France Telecom and the portal is *Voila.fr*.

- As users spend more time surfing the Internet, less attention is paid for advertisements in banner formats.

The survey yielded results that support the first hypothesis: approximately half of the exposures of a banner in a webpage are not seen and yet, users intentionally avoid looking at the banners. The second hypothesis did not have support from the research. However, Drèze and Hussher conclude that, even with these restrictions related to the user's attention, Internet advertising can be effective as long as effectiveness is measured in different terms. The traditional method for measuring the success of a banner is the quantity of clicks that it receives in 100 exhibitions (generally referred to in the industry as click-through rate or CTR). For the authors, this is not the most adequate method. One alternative and better way of measuring success is the one that uses brand recall as a parameter. Advertising in outdoor media is the one that most resembles the advertising in the Internet made with banners. Both of them occupy only a portion of the visual field of the user or viewer and typically consist of a simple text and a picture (Drèze and Hussher, 2003).

Fulgoni and Morn (2009) corroborate the idea that measuring clicks is not the most suitable way to assess the effectiveness of display advertising. Even when the CTR is minimal, this type of advertising can generate significant increases of visits to advertised websites, searches for advertised trademarks and online and offline sales.

## **2.3 Hypotheses**

In this section, four hypotheses that potentially explain how large the Internet share of advertising spending in a given country is will be described. Those hypotheses will be tested in the quantitative phase of the research. The first hypothesis is related to the significance of advertising expenditure in comparison to GDP, the second to Internet access penetration, the third to education levels and the fourth to a measurement of countries' richness.

The emergence of a new media type usually attracts the interest of advertisers. As they start considering the new media type in their advertising campaigns and investments, there are two possible outcomes to the overall advertising expenditure. It may be not affected at all, in which case the overall advertising expenditure would be split in one more type in addition to all the preexisting ones. Or it may be boosted, possibly as a result of additional value to advertisers delivered by the new media type. The latter case should be observable in terms of larger significance of advertising expenditure relative to GDP in a given country. That leads us to the first hypothesis:

*H<sub>1</sub>: Internet share of advertising expenditure is larger in countries where advertising expenditure as a percentage of GDP is higher.*

Audience is the first thing advertisers look for when developing campaigns. If a certain media type offers a relative smaller number of viewers when compared to a second media type, one should expect advertisers to have superior consideration for the latter in advertising media plans. Therefore, the size of the Internet audience is relevant to the research. The size of audience of media type is often referred to in terms of penetration – the percentage of people with access to or frequently consuming such media type. The second hypothesis relates the Internet share of advertising spending to that:

*H<sub>2</sub>: Internet share of advertising expenditure is larger in countries where Internet penetration in the population is higher.*

Much of the Internet content is readable and requires some sort of education to be consumed. Advertising is part of the content consumed. The third hypothesis is associated to the number of years of education received by the population of a country:

*H<sub>3</sub>: Internet share of advertising expenditure is larger in countries where people are enrolled in schools for more time.*

People access the Internet in multiple situations, locations and devices. Through a notebook, for example, users can access the Internet at home, work, school or a coffee shop.

Through a mobile device such as a cell phone, for example, users can access the Internet in any place where mobile operators made data transfer possible in their networks. To access the Internet in most of those situations, location and devices, the user generally incurs some kind of direct or indirect costs. For example, these costs can be derived from subscription monthly costs to have broadband Internet access serviced at home by Internet service providers (ISPs) or from paying by the hour when connecting to the Internet in coffee shops. It should be more common to observe greater ability to pay for Internet access service in the population of richer countries. Correspondingly, the telecommunications infrastructure needed to make it possible for people to access the Internet in those multiple situations, locations and devices should be more pervasive in richer countries. The fourth hypothesis, then, is concerned with to a measurement of country richness, GDP per capita at PPP.

*H<sub>4</sub>: Internet share of advertising expenditure is larger in countries with higher GDP per capita at PPP.*

Section 4.1.2 will return to those hypotheses after the statistical tests explained in the next section are run. The goal will be to determine which hypotheses find support in the multiple regression analysis and can be used to predict Internet share of advertising spending in a given country.

### 3 METHOD AND EMPIRICAL PROCEDURES

This study uses a mixed approach of quantitative and qualitative research, adopting the sequential explanatory strategy, one of six major approach methods described by Creswell (2003). The quantitative phase comes first and will present a number of data sets correlated with Internet share of advertising spending in a cross section of countries to test hypotheses  $H_1$  to  $H_4$ . The qualitative comes second and it is based on in-depth interviews with experienced professionals of the Brazilian advertising industry. The integration of the two phases of the research will be the end product of this thesis.

#### 3.1 Quantitative phase

The basic procedure of this phase of the research is to compare against each other several sets of data from a cross section of countries. Some of the comparisons and the variables selected are inspired by Barro's classic article "Economic Growth in a Cross Section of Countries" (1991). The goal here is to identify which macroeconomic indicators are related to Internet share of advertising expenditure and how. 63 countries composed the sample used in the cross-country comparisons. To be included in the sample, a country needed to have data available in all sources used in this research. Those are:

- **ZenithOptimedia's Advertising Expenditure Forecasts.** ZenithOptimedia is owned by Publicis Groupe, one of largest communications group worldwide. One of the company's activities is to collect and aggregate advertising expenditure actual and forecasts data for nearly 80 countries around the world. In some countries, like the USA, ZenithOptimedia acts as the data collector. In other counties, as Brazil, ZenithOptimedia just compiles data collected by third-party companies. Brazilian data is collected by Projeto Inter-Meios, an ongoing report ran by *Meio & Mensagem* periodical and many media companies. The companies report to

Projeto Inter-Meios their revenue data periodically under a confidentiality agreement. Projeto Inter-Meios then publishes the aggregate revenues of all publishers per each media type.

ZenithOptimedia's data collection and aggregation has many limitations. One of the most prominent is related to search advertising numbers, which will be discussed in more detail in section 5.3. Another is related to the number of countries in which Internet advertising spending data is available. A total of 65 countries had such data in the April 2011 release used in this research. Two of them, however, do not have data in at least one of the next data sources. This is the key reason why our sample is limited to 63 countries worldwide.

- **International Monetary Fund (IMF).** Part of the IMF's work is to provide a variety of economic data of virtually all countries worldwide. IMF's World Economic Outlook (WEO) database, for example, has biannually updated gross domestic product (GDP) numbers of virtually all countries worldwide. GDP and GDP per capita data from 63 countries are used in the research.
- **Internet World Stats.** The website gathers data from several research institutes and organizations such as Nielsen Online and International Telecommunication Union, among others. Data from Internet World Stats is collected using a variety of methods, both with regards to the methodology and to the period of measurement. Internet penetration and Internet population of countries worldwide are two of the main sets of data collected by Internet World Stats and used in this thesis.
- **United Nations Development Programme's (UNDP) Human Development Index (HDI).** Developed by a number of well-reputed economists, the HDI is a composite statistic used to rank countries according to the level of "human development". It balances life expectancy, literacy, education and standards of living for countries worldwide. In this research, one element of HDI's education section was used, the *mean years at school of adults*.



The quantitative analysis will employ correlations and linear regressions to compare countries' data against each other. The variables used in such tests are described in TABLE 1. The XLSTAT statistical analysis add-in for Microsoft Excel was used to run the correlations, regressions and statistical tests. The model initially used in the multiple regression analysis can be expressed as

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon \quad (1)$$

in which Y is the dependent variable,  $\alpha$  is the intercept,  $b_1$ ,  $b_2$ ,  $b_3$  and  $b_4$  are regression coefficients associated with the independent variables  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  and  $\varepsilon$  is the residual.

**Table 1: Description of values initially considered in the multiple regression analysis**

Variable description	Variable in equation	Corresponding name in computer output	Data source
Internet share of advertising spending	Y	InetShare	ZenithOptimedia (2011b)
Total advertising spending as a percentage of GDP	$X_1$	AdPctGDP	ZenithOptimedia (2011b)
Penetration of Internet access in the population	$X_2$	InetPen	Internet World Stats (2011)
Mean years of schooling (of adults)	$X_3$	SchoolYrs	UNDP's HDI (2011)
Per capita gross domestic product at PPP	$X_4$	PerCapGDP	IMF (2011)

### 3.2 Qualitative phase

The goal of this phase of the research is to investigate drivers and inhibitors of Internet advertising spending particular to the Brazilian market. The chosen method was in-depth interviews with seasoned professionals of the advertising industry. A total of seven professionals were interviewed following a semi-structured approach, in which an interview protocol was used as the basis to guide the conversation. Each interview took from 40 to 50

minutes. All of them were conducted in Portuguese with native Portuguese speakers. The APPENDIX presents the protocol in the original Portuguese version and its translation to English. Both the interview protocol and the results were versioned to English by the author. The method of in-depth interviews was chosen for this phase as it has little rigor, and the purpose is to ask respondents their opinions, feelings and attitudes toward the subject (Emory, 1980).

A number of factors determined the sample. Those include how many years of experience in the advertising industry the respondents had, the degree of proximity of their work to Internet advertising, and the degree of decision-making authority of the respondent in their own opinion, especially when the respondent worked for an advertiser. A minimum of 10 years of professional experience was initially intended, although at the end no respondent interviewed had less than 12 years of professional experience. Sampling also concerned with balancing the respondents' experience in different parts of the industry. There is mix of advertisers, publisher's professionals and advertising agency's professionals. To determine the number of interviews to be conducted, a saturation criterion was applied (Morse, 1994). No relevant new information or themes were observed in the data by the seventh interview. Finally, respondent accessibility to the author was a factor to select the sample as well.

In the beginning of each interview, the respondents were made aware of the nature and goals of the research and the reason why they were being interviewed. A summarized profile of the professionals interviewed is found in TABLE 2.

**Table 2: Summarized profiles of respondents of the in-depth interviews**

Respondent	Current role	Past work experiences	Years of experience
A	Media Buyer of an advertiser	Marketing roles at other advertisers and planning roles at advertising agencies	15
B	Account Manager of an online publisher	Advertising sales roles in a broadcast television company	12
C	General Manager of a multinational company	Senior management roles of online publisher and marketing director role at a large multinational company	32

D	Independent Consultant of digital marketing disciplines	Sales and planning roles at online publishers and media planning roles at advertising agencies	20
E	Planning Manager of an advertising agency	Several different roles in advertising agencies, within the media, research and account management departments	13
F	Sales Executive of an online publisher	Client services account management role at an advertising agency	15
G	International Sales Manager of an online publisher	Different sales roles in online publishers and ad networks	14

## **4 ANALYSIS OF RESULTS**

### **4.1 Results from quantitative analysis**

#### **4.1.1 Cross-country comparison and correlation with Internet penetration**

In 2010, the Internet share of global advertising expenditure by medium corresponded to 14.1%. That puts the Internet in the third position of media types ranked by their share of global advertising expenditure, behind television with 40.4% of share and newspapers with 21.3%. It ranges from nearly zero percent of share (e.g.: Indonesia and Venezuela) to more than 25% of share (e.g.: Sweden, Denmark, Norway and UK). The arithmetic mean of Internet share of the 63 countries of the sample is 8.6% and its standard deviation is 8.1%. Global share of 14.1% is significantly higher than the average of 8.6% as the largest contributors to global advertising spending, namely the USA, Japan, Germany and the UK, exhibit quite above average Internet share of advertising spending. The list of countries with the corresponding share of Internet advertising expenditure is displayed in TABLE 3 (ZenithOptimedia, 2011a and 2011b).

As advertisers are primarily looking for an audience to look at their advertisements, it is natural to expect the number of Internet users of a given country to be directly linked to the amount of Internet advertising spending in the same country. The larger the number of people using the Internet in country X, the larger should be the advertisers' willingness to invest in Internet advertising in country X. TABLE 3 also brings data of Internet penetration in the same sample of countries. In the Netherlands, for example, Internet has 21.9% of advertising spending share while 82.9% of its population has access to the Internet. Both percentiles are quite above their global average.

**Table 3: 2010 Internet share of advertising spending and penetration of a 63-country sample**

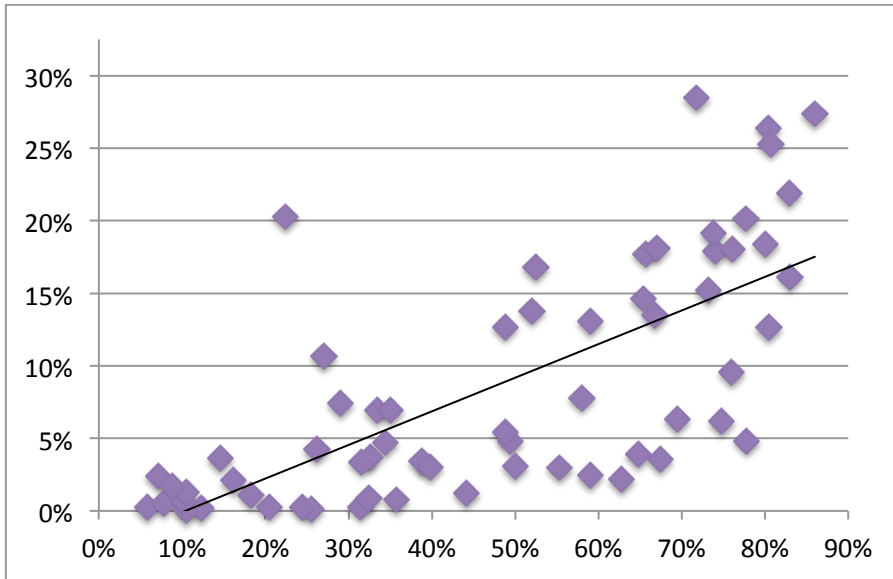
Darker cells indicate higher share (or penetration), while lighter cells indicate lower share (or penetration). Bold numbers are mean for each region or continent. Global mean of share is 8.6% while standard deviation is 8.1%. Global mean of penetration is 47.6% while standard deviation is 25.0%.

	Share of ad spending	Penetration		Share of ad spending	Penetration
<b>Asia Pacific</b>	<b>8.0%</b>	<b>46.6%</b>	<b>Latin America</b>	<b>2.7%</b>	<b>33.8%</b>
Australia	18.4%	80.1%	Argentina	4.8%	49.4%
China	20.3%	22.4%	Brazil	4.7%	34.4%
Hong Kong	6.3%	69.5%	Chile	3.1%	50.0%
India	2.4%	7.1%	Colombia	3.4%	38.8%
Indonesia	0.0%	10.5%	Costa Rica	0.8%	35.7%
Japan	19.1%	73.8%	Ecuador	0.2%	12.3%
South Korea	18.1%	76.1%	Peru	4.2%	26.2%
Malaysia	2.2%	62.8%	Uruguay	3.4%	31.6%
New Zealand	12.7%	80.5%	Venezuela	0.1%	25.5%
Pakistan	0.7%	10.1%	<b>M. East &amp; Africa</b>	<b>9.6%</b>	<b>42.3%</b>
Singapore	3.6%	67.4%	Israel	17.9%	74.0%
Thailand	0.3%	20.5%	South Africa	1.3%	10.5%
Vietnam	0.3%	24.4%	<b>North America</b>	<b>17.7%</b>	<b>75.5%</b>
<b>C. &amp; East. Europe</b>	<b>5.8%</b>	<b>36.1%</b>	Canada	20.2%	77.7%
Armenia	0.2%	5.8%	United States	15.2%	73.2%
Azerbaijan	1.1%	18.3%	<b>Western Europe</b>	<b>15.5%</b>	<b>70.6%</b>
Belarus	7.4%	29.0%	Austria	6.2%	74.8%
Bos. and Herz.	0.3%	31.4%	Belgium	4.9%	77.8%
Bulgaria	3.7%	32.6%	Denmark	26.4%	80.4%
Croatia	1.2%	44.2%	Finland	16.1%	83.0%
Czech Rep.	12.7%	48.8%	France	17.7%	65.7%
Estonia	14.6%	65.4%	Germany	18.1%	67.0%
Georgia	0.5%	7.8%	Ireland	7.8%	58.0%
Hungary	16.8%	52.5%	Italy	5.4%	48.8%
Latvia	13.1%	59.0%	Netherlands	21.9%	82.9%
Lithuania	2.4%	59.0%	Norway	27.4%	86.0%
Moldova	2.1%	16.2%	Portugal	3.0%	39.8%
Poland	13.8%	52.0%	Spain	13.5%	66.8%
Romania	6.9%	33.4%	Sweden	25.3%	80.7%
Russia	10.7%	27.0%	Switzerland	9.6%	76.0%
Serbia	0.9%	32.4%	UK	28.5%	71.8%
Slovakia	3.0%	55.3%			
Slovenia	3.9%	64.8%			
Turkey	6.9%	35.0%			
Ukraine	3.7%	14.6%			
Uzbekistan	1.7%	8.8%			

Source: ZenithOptimedia (2011b) and Internet World Stats (2011).

An observation from TABLE 3 is that Internet share of advertising spending appears to be higher in rich countries and smaller in emerging ones. FIGURE 5 plots Internet share of advertising expenditure versus Internet penetration of the same sample of 63 countries. Their correlation is 0.71, indicating a substantial positive relation between those variables.

**Figure 5: Internet share of advertising spending vs. Internet penetration**



#### 4.1.2 Regression analysis

Several multiple linear regressions were tested to determine the model that would better predict Internet share of advertising spending in a country. For the reasons explained subsequently, a simplified model with two dependent variables was selected as the model that better predicts Internet share of advertising spending. The original model of equation (1) had four dependent variables. The simplified model is

$$Y = \alpha + b_1X_1 + b_2X_2 + \varepsilon \quad (2)$$

in which, as in equation (1) seen in section 3.1, Y is the dependent variable,  $\alpha$  is the intercept,  $b_1$  and  $b_2$  are regression coefficients associated with the independent variables  $X_1$  and  $X_2$  and  $\varepsilon$  is the residual. Brief explanations of why the model with four variables was

rejected, as were other models with three or one variable, are provided. Then, computer-generated statistics of equation (2) with the variables seen in TABLE 1 are analyzed.

*MODEL USING ALL FOUR INDEPENDENT VARIABLES.* The linear regression of this model produced the second higher Adjusted  $R^2$  of all models tested. However, a multicollinearity problem arose as the correlation of two of the predictors was very high – correlation of *InetPen* and *PerCapGDP* is 0.881. To cope with the multicollinearity problem, the simple remediation of using only one of the variables was chosen (Malhotra, 1999). The succeeding models either used *InetPen* or *PerCapGDP* as a predictor, or none of them. TABLE 4 shows the correlation matrix of all variables described in TABLE 4.

**Table 4: Correlation matrix of variables used in equation (1)**

Variables	AdPctGDP	InetPen	SchoolYrs	PerCapGDP	InetShare
AdPctGDP	<b>1.000</b>	0.067	0.115	0.024	-0.230
InetPen	0.067	<b>1.000</b>	0.608	0.881	0.710
SchoolYrs	0.115	0.608	<b>1.000</b>	0.547	0.532
PerCapGDP	0.024	0.881	0.547	<b>1.000</b>	0.640
InetShare	-0.230	0.710	0.532	0.640	<b>1.000</b>

*MODELS USING THREE VARIABLES.* Derived from the model with four variables, it was possible to write two models with three variables. The first excluded *InetPen* and the second excluded *PerCapGDP*. The first appeared robust, but its Adjusted  $R^2$  was notably smaller than the Adjusted  $R^2$  of the model later selected as the model that better predicts Internet share of advertising spending. The second had the higher Adjusted  $R^2$  of all models tested, but the p-value of parameter *SchoolYrs* was above the acceptable for the 95% confidence interval. Both models were then rejected.

*MODELS USING ONE AND TWO VARIABLES.* Ten possible models using one or two variables from TABLE 4 could be tested. Some of which had p-values above the acceptable for the 95% confidence interval. The model selected had significant higher Adjusted  $R^2$  than the nine other models tested as well as acceptable p-values for the 95% confidence interval.

Such model used the variables *AdPctGDP* and *InetPen* and the computer-solved equation is expressed as

$$\text{InetShare} = 0.008 - 4.144 \text{ PctGDP} + 0.238 \text{ InetPen} \quad (3)$$

TABLES 5 through 7 bring results from the regression analysis, which will be explained subsequently.

**Table 5: Goodness of fit statistics**

Observations	63
Sum of weights	63
DF	60
R <sup>2</sup>	0.581
Adjusted R <sup>2</sup>	0.567

**Table 6: Model parameters**

Source	Value	Standard error	t	Pr >  t	Lower bound (95%)	Upper bound (95%)
Intercept	0.008	0.017	0.444	0.659	-0.027	0.043
PctGDP	-4.144	1.243	-3.333	0.001	-6.631	-1.656
InetPen	0.238	0.027	8.701	< 0.0001	0.183	0.292

**Table 7: Standardized coefficients**

Source	Value	Standard error	t	Pr >  t	Lower bound (95%)	Upper bound (95%)
PctGDP	-0.279	0.084	-3.333	0.001	-0.446	-0.112
InetPen	0.728	0.084	8.701	< 0.0001	0.561	0.896

Results from the regression analysis support hypothesis H<sub>2</sub> and the opposite of hypothesis H<sub>1</sub>. Internet share of advertising expenditure apparently can be predicted in terms of Internet penetration (H<sub>2</sub>) and also in terms of advertising expenditure as a percentage of GDP (H<sub>1</sub>). The dependent variable is *directly proportional* to Internet penetration, while it is *inversely proportional* to advertising expenditure as a percentage of GDP. The standardized coefficient of *InetPen* (0.728) is significantly larger than the standardized coefficient of *PctGDP* (-0.279), an indication that *InetPen* is more relevant to the prediction.



Differently from hypothesis H<sub>1</sub>, Internet share of advertising expenditure is *smaller* in countries where advertising expenditure as a percentage of GDP is higher – and not larger. A possible explanation for this fact is the usual higher price of television advertising when compared to Internet advertising. In countries where Internet penetration is low, advertisers theoretically invest more in television advertising. The sum of their investments would represent a higher portion of GDP when compared to the sum of advertising investments in countries where Internet penetration is higher.

Hypothesis H<sub>4</sub> is indirectly supported as well, as the correlation between *InetPen* and *PerCapGDP* is extremely high. In fact, a model with two variables using *PerCapGDP* and *PctGDP* produced results similar to the model using *InetPen* and *PctGDP*. Its Adjusted R<sup>2</sup>, however, was smaller and the model was then discarded. Hypothesis H<sub>3</sub> was not supported by the regression analysis.

## **4.2 Results from qualitative analysis**

Respondents were asked to contribute to the research pointing out *drivers* and *inhibitors* of Internet advertising spending growth in the Brazilian market. In such context, *driver* should be understood as any factor that could stimulate Internet advertising spending. Alongside, *inhibitor* should be understood as any factor that could damper Internet advertising spending. In this section, an interpretation of the most relevant drivers and inhibitors as perceived by the author from the in-depth interviews is presented.

### **4.2.1 Drivers of Internet advertising spending growth in Brazil**

The eight drivers of Internet advertising spending growth presented in this section were mentioned by one or more respondents. Some of the drivers were raised spontaneously when respondents were asked to enlist and describe what contributes to the growth of Internet advertising spending in the Brazilian market. Some other required stimulation

through the interview protocol. The list below is not ordered in a rigid manner, while the factors containing richer illustrations and evidences tend to come first.

- **Multinational companies' alignment.** Alignment with headquarters may force Brazilian subsidiaries to spend a fixed percentage of total advertising budgets in online advertising. Let's suppose Company X is headquartered in the UK and one of its international subsidiaries is located in Brazil. Company X's media spending strategy is to allocate 15% of its advertising budget to the Internet. The figure is well above the average Internet advertising spending in Brazil. But, since media spending strategy is defined centrally at the headquarters, the local subsidiary ends up investing in Internet advertising more than it would invest should it be a local company. A condition for this to happen is the alignment of subsidiaries with headquarters when it comes to media buying strategy. The alignment does not necessarily happen in all multinational corporations with presence in Brazil.

The first look at multinational alignment of the marketing function may call it a driver to the growth of Internet advertising spending. The logic is simple. Many multinational companies are headquartered at developed countries, where Internet advertising is more mature and therefore absorb a larger share of the total advertising expenditure. Subsidiaries in the Brazilian market would follow guidance from headquarters in a number of aspects, including what portion of their marketing budgets should be spent on Internet advertising.

That's, though, the first look and it doesn't explain the whole thing. What actually happens in many situations and companies is a resistance to follow headquarters' guidance. A few reasons could explain such fact. In the words of one respondent,

*“The subsidiary marketing manager believes he or she has deeper knowledge of the local market and, therefore, should be the ultimate decision-maker in media budget allocation. And there is more – guidance doesn't come alone, but along with targets of brand awareness, preference and other relevant advertising KPIs. How could a local marketing manager achieve such*

*challenging targets investing so heavily in Internet advertising? There are so few people watching it in comparison to the number of people watching television, for example.”*

To summarize, alignment with multinational headquarters outside Brazil appears to be a driver of Internet advertising expenditure growth. The extent to which it influences media spending allocation in a multinational company, however, couldn't be specified after the interviews. Such theme could be subject of further research, related to this thesis.

- **Innovation.** Online vehicles frequently introduce innovative online advertising formats. An example would be the sponsorship opportunities available in concerts broadcasted to millions of viewers through YouTube. Many advertisers see benefits in attaching their brands to such innovation and demand agencies to consider new online advertising formats in their plans. Perception among peers is an analog motivator. According to one respondent,

*“It is not a good thing for a large advertiser not to be seen online. You wouldn't like to be the marketing manager that decided not to advertise online when all of your competitors are doing it.”*

Also, many advertising campaigns are developed with the media and the publisher in mind. Sometimes media buying professionals even contribute to the campaign in its developing phases, suggesting innovative formats they come to know. Online advertising appears to have more innovation opportunities than more consolidated media types. As such, it tends to attract attention of media selection decision-makers, from media buying professionals to marketing managers of advertisers.

- **‘The Google Factor’.** Google’s relationship model is less dependent on agencies and therefore pushes advertisers to think more about their overall media spending. In Google’s model, decision-making power attributed to the agency is limited. In search advertising, Google occupies such a dominant market position that makes it nearly impossible for an advertising to think about search advertising without thinking about Google. To put in the words of one respondent,

*“Of course Google attracts the interest of many advertisers due to its dominant market position. To many advertisers Google is the front door of Internet advertising. You may see companies and marketing managers not spending a cent in display advertising, and even without knowing what a banner is. But certainly the same company is buying some sponsored links at Google.”*

However, the extent to which ‘The Google Factor’ benefits other online publishers and other types of Internet advertising other than search is questionable and not a point of agreement within the respondents, though. Another respondent complemented:

*“It’s not common to see an advertiser saying ‘I started with Google, and now I advertise in portal X, Y and Z’. But I’ve seen advertisers saying ‘I started with Google’s sponsored links, and now I buy placements at YouTube and Orkut<sup>11</sup>’.”*

- **Agency compensation and new entrants.** New agency compensation models have been slowly replacing the traditional 20% commission over media buying, typical of the old broadcasting TV dominance era of mass media communication in the Brazilian advertising industry. In fact, that percentage has been long abandoned. According to one of the respondents,

*“All the large advertisers I know work with a 6% commission over media buying. The 20% commission era is gone. Nobody practices it anymore.”*

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<sup>11</sup> Both YouTube and Orkut are online properties owned by Google Inc.

The reduced commission directly impacts the agency profitability. Incumbents with more expensive cost structures, built and adapted to the old compensation model, cope with challenges that may be ignored by new entrants. Those new agencies may be more willing than incumbent agencies to accept different compensation schemes, based in productivity or success fees rather than traditional commission over media buying. Some of those new agencies are pure players of online advertising. They do not produce campaigns for other media types, neither buy space in other media types. They naturally think of online advertising when working with advertisers to solve their marketing challenges.

- **Cross-media impact.** Advertisers aware of the impact caused by the Internet over the consumption of other media types may consider strengthen their online presence through advertising, expecting it to reverberate positively in other media. Such cross-media impact was insightfully described by one of the respondents:

*“The Internet and, especially, social media are bringing people back to television. For example, some people watching Big Brother Brasil on TV post a comment about the reality show in Facebook. That calls the attention – and consequently increases the audience – of people who weren’t previously aware of such show. People think ‘if my friend is watching it, maybe I’m missing something here. Let me turn on the TV and check it out’.”*

In fact, campaigns are increasingly being developed with many media types in mind. Another respondent added:

*“These days it is rare not to think in digital marketing when developing a comprehensive campaign, with large budgets, typical of large advertisers. Many online publishers conduct studies of cross-media impact indeed. The idea is to show evidence that a campaign with online components is more beneficial to advertisers than a campaign without those components.”*

- **Example of leading industries.** Some industries and sectors are more mature than others when it comes to Internet advertising. In the words of one respondent,

*“The automotive industry is a good example of industry maturity. Every brand is doing Internet advertising. Financial services sector is another example. One may be not working in those industries but, as a good observer, tend to start thinking why those guys are doing that and he or she is not, what is the cost of Internet advertising, what is the return and so on.”*

The fact that marketing managers move from one employer to the other multiple times during their career also contributes to the effect of following by example. Managers are often hired to bring in to companies some missing skill, knowledge or competency. Internet advertising, as a relative new area of expertise, may be the one of the key reasons managers are shifting from one company to the other.

- **Growth in broadband Internet access.** Adoption of broadband Internet access is becoming more popular and, with that, richer online advertising formats can be viewed by more people. One of these formats is video-based online advertising, which designed to and more easily seen through broadband connections. Brazil’s National Broadband Plan, established by the Ministry of Communications, is expected to boost adoption of broadband Internet access in emerging classes of the society (Ministério das Comunicações, 2009). That happens in addition to the evident growth in the number of Internet users brought by the dissemination of broadband access. According to one participant,

*“Internet still is a factor of digital inclusion. That will be interesting to observe new advertisers adopting the Internet as their consumers become Internet users in the next few years. Today television is in its high 90% of penetration. Many TV advertisers do not advertise in the Internet simply because their consumers are not there yet.”*

- **New devices.** Internet-based content and applications are becoming widely consumed by a variety of new mobile devices, ranging from smartphones to tablet computers. Advertising tied to such content and applications, therefore, tend to be consumed by more people or more frequently by the same people. Some of these content and applications are offered free of charge to consumers. Publishers expect to make a profit through advertising, as in the traditional media publishing business.

However, adoption may be as slow as or even slower than Internet advertising consumed by more traditional devices such as personal computers. In the opinion of one respondent,

*“If Internet advertising is still hard to understand for many advertisers, mobile advertising is like science fiction to them”.*

With the eighth *driver* of Internet advertising spending growth just described, this section is concluded. After the description of *inhibitors* of Internet advertising spending growth subsequently, section 4.2.3 will bring a categorization of both drivers and inhibitors with the objective of comparing the factors against each other to determine their relative impact and relevance to the research questions.

#### **4.2.2 *Inhibitors* of Internet advertising spending growth in Brazil**

As with the drivers, the seven inhibitors of Internet advertising spending growth presented in this section were mentioned by one or more respondents. Only a few of the inhibitors were spontaneously mentioned by respondents. But, when stimulated by the interview protocol, many of the respondents unreservedly provided full descriptions of how one particular inhibitor affected the whole Internet advertising industry. Again, the list

below is not ordered in a rigid fashion, while the factors containing richer illustrations and evidences tend to come first.

- **‘BV’ rebate program.** A widely known rebate mechanism in the Brazilian advertising industry is called BV<sup>12</sup>. Publishers return to agencies a portion of their revenues to incentivize media planners to include them in media plans. To understand the effects of such rebate program, let’s assume the aggregation of advertising budgets of all companies to be constant no matter how they are distributed among publishers. BV incentivizes media planners to prioritize one publisher instead of the other, despite the media nature of both.

Agencies consequently have incentives to favor publishers that provide larger BV compensation. The publishers which already own the largest shares of media budgets tends to perpetuate their position as they have economic advantages to pay larger BV rebates. Those publishers are typically broadcasting TV companies. The whole scheme dramatically influences the agency behavior and constitutes a classic principal-agent problem. The advertising agency (the *agent*) acts on behalf of the advertiser (the *principal*) to decide which publishers get a portion of the advertising budget. The rebate mechanism makes the objectives of each different. The advertiser’s objective is to maximize its return on investment (ROI). The agency’s objective becomes to maximize its BV compensation gains. A moral hazard problem arises because the advertiser cannot easily identify whether the agency actions are taken in pursuit of the advertiser’s goals or are self-interested misbehavior (Milgrom and Roberts, 1992).

Some online publishers may offer larger in percentage BV compensation to counterbalance this effect. This percentage is generally relative to the overall investment of all advertisers of a given agency in a publisher. Because compensation of broadcasting TV companies tends to be much larger in total BV compensation, the counterbalance attempt is unlikely to interfere in the agency behavior at all.

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<sup>12</sup> A Portuguese acronym for ‘Bônus por Volume’. In English, *volume bonus*.



While some of the respondents raised ethical concerns regarding the BV scheme, it was mentioned that the mechanism is a licit practice governed by clear rules. The ‘legality’ subject deserves some clarification. Brazilian advertising industry follows a mixed regulation approach that encompasses federal laws and self-policing practices. One of the self-policing entities is called Conselho Executivo das Normas-Padrão (CENP). The entity is in charge of publishing and maintaining the *Standard Norms for Advertising Activities* (CENP, 2005). This document describes explicitly the existence of the incentive mechanism as well as the sole eligibility of agencies to earn them.

The theme appeared many times during the in-depth interviews, especially when describing how advertising agency defines media plans. One of the respondents observed:

*“If TV channel X pays a large BV, media plans will of course favor TV channel X. That’s the common practice in the industry.”*

Even when Internet advertising is isolated from advertising in other media types the BV influence is present. Another respondent said:

*“I don’t include search advertising in my client’s media plans. It doesn’t qualify for BV as display advertising does.”*

The reference to search advertising deserves some elucidation. Because Google occupies such a dominant market position in search advertising, there is no need for it to diminish its margins through any kind of incentive mechanism. See ‘The Google Factor’ section in 4.2.1 above for complementary information.

- **Absence of media brokers.** Regulation in the Brazilian advertising market discourages the operation of media broker companies. Such discouragement

happens in an economic fashion. Any entity that is not a full-service advertising agency is not entitled to receive ‘discounts’ in media buying<sup>13</sup> (Presidência da República, 1965). The effect is obvious – should any media broker be operative in the Brazilian market, it would pay a higher price for reserved media space when compared to the price advertising agencies usually get.

In markets where media brokers freely operate there is an incentive for advertisers to look for the ‘best deals’ in media buying, i.e. generally the ones providing the best ROI. In the Brazilian market, because regulation incentivizes media buying to be done by agencies only, media buying *decision-making* happens to be largely influenced by agencies as well. As seen earlier, the BV rebate scheme makes agencies prioritize media types such as television over the Internet. Players are exposed to the principal-agent problem described previously and a strong inhibitor to Internet advertising spending growth is formed.

Many of the respondents of the in-depth interviews mentioned this inhibitor, while not always connecting it to Internet advertising spending growth. Some of the responses described this particularity of the Brazilian market as a sign of industry *immaturity* and as a “result of old lobby habits and practices”. One of the respondents also compared the role of media brokers to companies known as ‘ad networks’. Those companies have agreements with websites not large enough to hire its own sales force. Ad networks then sell the inventory from those websites to advertisers.

- **Lack of qualified professionals.** A common theme in the in-depth interviews was the scarcity of high profile professionals in the online advertising industry. The issue was described with multiple points of views, depending on the professional background and current position. The issue is believed to affect the whole chain of

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<sup>13</sup> Federal law number 4680 from June 18<sup>th</sup>, 1965, disposes the non-entitlement of media brokers and the like to receive discounts when buying media space for advertisers.

the industry – agencies, advertisers and publishers. One of the respondents described it in terms of the inability of agencies to attract and retain top talent:

*“Advertising agencies are living an era of low differentiation and commoditization of their services. That creates a lot of pressure on margins. In addition, the business is human resource intensive. How can you attract and retain high profile professionals in such an environment? You simply can’t. Agencies turn out to hire non-experienced, junior staff that isn’t capable of delivering complex and high value campaigns. The whole thing is even worse when you isolate the online advertising department of a large agency, which is by far much less profitable than the offline advertising department.”*

- **Limited standardization.** There are two key dimensions under the standardization theme. One is related to standardization of Internet advertising *formats* and the other is related to standardization of *audience and performance metrics*. At the current development stage of Internet advertising, both can be considered as inhibitors to the growth of spending in Internet advertising.

Internet advertising formats are much more diverse than television advertising formats, for example. In the latter, most of the ads are 30-second commercials with variations in length – those could be 15-second and 60-second as well. In the former, formats can vary either in a number of measurements, including ad type (display or search), ad size (width versus length, when display ads), nature of exhibition (standard location in a webpage or unexpected intervention) and so on. Many advertisers find it hard to assess return on investment with such variety. According to one respondent,

*“People go for the easy choice. In TV advertising it is so easy to evaluate production cost and media cost. People got used to it. It is easier to compare with previous campaigns, it is easier to compare to what competition is doing. At the end, performance is easier measured in TV. People end up choosing TV because of that.”*

When it comes to standardization of audience and performance metrics, Internet advertising keeps its complexity. In the words of one respondent,

*“Internet has been out there for a while, but many people still find it confusing to distinct from page views, banner impressions, unique users, total users, minutes per user and so on. And those are only a few among the many audience metrics.”*

As the Internet evolves and new forms of using it emerge, the standardization matter gets more complex. Another respondent mentioned the social media impact in ROI measurement:

*“Now there is this whole buzz around social media. That makes thing still more complicated. ‘How can I assess ROI in social media?’ is a frequent doubt I hear from marketing managers. TV advertising or newspaper advertising don’t bring such complexity to the mind of a marketing manager.”*

- **Different production costs.** Compared to production costs of TV advertising, production costs of Internet advertising are a lot cheaper. Because many large agencies provide full advertising services to their clients, eventually that difference in production costs will represent a conflict of interests. Those agencies manage both online and offline advertising productions. And they will be tempted to recommend to their clients campaigns that generate more revenue and profit to themselves. The effect here is similar to the principal-agent problem described in the BV rebate program above. In the words of one respondent,

*“It could take as much as R\$ 1 million to produce a set of TV ads for a single campaign. An online campaign can be produced at 2% or 3% of that cost. This is a lot less attractive business to an advertising agency.”*

In many cases the advertising agency itself is not the producer, but the production coordinator. It is responsible for hiring another company that ultimately will be the producer of, for example, a TV commercial. In those cases the agency earns commissions over the production that, as with the direct production costs, are much higher in TV advertising than in Internet advertising. Another respondent added:

*“The agency definitely tries to influence their clients not to do a lot of Internet advertising. It generates much less revenue to the agency in terms of production. It requires coordination with many different publishers as formats are not standardized. Then you have campaign reporting. Publishers use different tools, sometimes you can use a third-party tool to congregate the results, sometimes you can’t. It’s more complicated than other types of advertising, let’s put it this way.”*

- **Market immaturity.** Many agencies employ old staff with partial knowledge of online advertising. This staff has limited incentive to consider the benefits of online advertising to their clients. Many decision-makers of advertisers present similar behavior, trusting in old forms of advertising to achieve business objectives. A large broadcasting TV campaign may be perceived as ‘safer’ than a fragmented, cross-media campaign by a senior decision-maker in a traditional advertiser. Market immaturity is also generally connected to an aversion to change. In the words of one respondent,

*“I often hear old school agency people saying ‘online advertising won’t help you sell. Online advertising won’t help you meet your revenue targets’.”*

In an effort to mitigate the negative impact of that immaturity, many online publishers invest in education programs targeted to professionals of agencies and advertisers. In comparison to offline publishers, the work of online publishers in

many times is more complex and the sales cycle, longer. One respondent, currently working at an online publisher, added:

*“I’m here to sell, but I’m also here to educate advertisers and ad agencies. I can only sell if I educate first.”*

- **Privacy concerns.** This topic could be an extensive one; let’s limit it to a single illustration point for simplification purposes. Some online advertising formats rely on behavioral targeting techniques. They collect information of an individual’s web-browsing behavior to select advertisements that will be displayed to such individual. By doing this, advertisers and vehicles expected to increase effectiveness of campaigns.

Many Internet users may be concerned with the privacy of their web-browsing behavior and eventually will not be willing to have anyone (or anything) scanning it. One mean for a user to limit the possibility of having his or her browsing activity collected by a website is simply not to use it. That could lead to a lower consumption of the Internet itself, and consequently less possibilities of exposing online advertisements to users.

The seventh *inhibitor* of Internet advertising spending growth just described concludes this section. Section 4.2.3 will then compare drivers and inhibitors with regards to their relative impact and relevance to the research questions.

### **4.2.3 Categorization of drivers and inhibitors**

The drivers and inhibitors identified in the preceding sections can be categorized according to their *impact* and *country specificity*. In the current context, impact should be understood by the extent of how each of the factors contributes as an inhibitor or as a driver

of Internet share of advertising spending growth. Three categories of impact are possible: strong, medium and limited. Country specificity refers to the geographic observability of each factor. Each factor can be either general, Brazil-specific, emerging markets-specific or emerging and fast growing markets-specific. TABLE 8 brings the categorization of each factor, ordered first by the impact column (strong factors at the top; limited factors at the bottom).

An important caveat: the categorization portrayed here is an *interpretation* of the author after the in-depth interviews and the research conducted as part of the literature review. It is aimed to provide additional clarity to the subject. Construction of TABLE 8 was not based on proven evidence, but rather on the author's perception based on the data analyzed.

**Table 8: Categorization of *drivers* and *inhibitors* as perceived by the author**

Nature	Factor	Impact	Country specificity
Inhibitor	'BV' REBATE PROGRAM	Strong	Brazil
Inhibitor	ABSENCE OF MEDIA BROKERS	Strong	Brazil
Inhibitor	LACK OF QUALIFIED PROFESSIONALS	Strong	Emerging and fast growing markets
Inhibitor	LIMITED STANDARDIZATION	Strong	General
Driver	MULTINATIONAL COMPANIES' ALIGNMENT	Medium	Emerging markets
Driver	INNOVATION	Medium	General
Driver	'THE GOOGLE FACTOR'	Medium	General
Driver	GROWTH IN BROADBAND INTERNET ACCESS	Medium	Emerging markets
Inhibitor	DIFFERENT PRODUCTION COSTS	Medium	General
Inhibitor	MARKET IMMATURITY	Medium	Emerging markets
Driver	AGENCY COMPENSATION AND NEW ENTRANTS	Limited	General
Driver	CROSS-MEDIA IMPACT	Limited	General

Driver	EXAMPLE OF LEADING INDUSTRIES	Limited	General
Driver	NEW DEVICES	Limited	General
Inhibitor	PRIVACY CONCERNS	Limited	General

The factors considered strong are all related to the economics of advertising spending somehow. The BV rebate program makes it tougher for an online publisher to attract advertising investments when television advertising is an option, as seen in section 4.2.2. The lack of qualified professionals at agencies and advertisers naturally inhibits Internet advertising spending as, apparently, there are less people than needed empowered to make budget allocation decisions with full comprehension of what Internet advertising is capable of delivering. Finally, limited standardization complicates the challenge of measuring return on investment in Internet advertising. Such fact potentially restrains the interest of advertisers in repeating Internet-based campaigns with partially known results.



## 5 FINAL REMARKS

### 5.1 General conclusions

The key goal of this thesis presented in section 1.2 was to examine which factors influence the current low Internet share of advertising spending in the Brazilian market. The convergence of the quantitative results with the qualitative findings indicates possible outcomes to this research question.

Firstly, the quantitative phase supported the evident connection between Internet share of advertising spending and Internet penetration in a given country. And, because Internet penetration is highly correlated with per capita GDP at PPP, there is strong support to the direct proportionality between *country richness* and higher *Internet share of advertising spending*. Evidence to support that Internet share of advertising spending tends to be *lower* when overall advertising spending as compared to GDP is *higher* has been seen as well. A clear explanation for this inverse proportionality is that television advertising is usually more expensive than Internet advertising. So, in those countries where there aren't so many Internet users, advertisers tend to invest in more expensive media types such as television.

Secondly, the qualitative phase outlines factors that contribute and obstruct the growth of Internet share of advertising expenditure in Brazil. Not surprisingly, the in-depth interviews with Brazilian industry professionals described more richly inhibitors than drivers of Internet share of advertising spending growth. It seems that the emerging stage of the Brazilian economy gives room to the appearance of market inefficiencies such as disproportionate rebate programs offered to key decision makers of media budget allocation – advertising agencies, mostly. Regulation and self-policing apparently created and contribute to sustain those inefficiencies. It would be hard to support the idea that the Brazilian advertising industry operates as a free market in which exchange is undertaken as a

voluntary agreement between two people expecting to gain from it (Rothbard, 2008). The existence of the BV rebate mechanism, the sole eligibility of advertising agencies to earn it and the economic discouragement for media brokers not to operate in the Brazilian market make it a *not-so-free market*.

This whole context apparently produces a negative feedback to the system, and contributes to keep the Internet share of advertising spending low in the Brazilian market. The spending amount has been growing in past decade as seen in FIGURE 1, but unhurriedly. The current low Internet share of advertising expenditure in Brazil (4.7%) can be considered the norm under the current levels of development of the country. The mean of Internet share of advertising spending of the 63-country sample used throughout this research is 8.6%, quite above the share in Brazil. When it comes to Internet penetration, the mean of the 63-country sample is 47.6%, while penetration in Brazil is only 34.4%. More developed economies in general have higher Internet penetration in their population. At the same time, institutions are stronger, markets are more open to entrants and in many times wealthy is more evenly distributed. Kaufmann et al (1999) presented empirical results showing a strong positive causal relationship from improved governance to better development outcomes. Emerging economies like Brazil have worse governance, what potentially gives room to those inefficiencies previously mentioned. And, being less developed, those markets are poorer and have lower Internet penetration. Such combination elucidates the main research question.

As for the first of the secondary research questions, section 4.1.2 shows that Internet share of advertising expenditure apparently can be predicted in terms of Internet penetration and also in terms of advertising expenditure as a percentage of GDP. The dependent variable is directly proportional to the former and inversely proportional to the latter. Standardized coefficients of the regression analysis also indicate that Internet penetration is more relevant to the prediction than advertising expenditure as a percentage of GDP. Per capita GDP is also a significant predictor of Internet share of advertising spending, while mean years of schooling of adults is not.

Finally, there are in fact barriers for the growth of Internet advertising expenditure in the Brazilian market as section 4.2.2 points out. The ones with stronger impact as perceived by the author after the in-depth interviews are the BV rebate program, the absence of media brokers operating the Brazilian market, the lack of qualified professionals and the limited standardization of Internet advertising.

## **5.2 Contributions**

### **5.2.1 To the practice of marketing**

The managerial implications will be separated in three parts. The first is related to publishers, the second to advertisers and the third to advertising agencies.

*PUBLISHERS.* Internet publishers in the Brazilian market should expect Internet advertising spending to grow significantly over the next years and, perhaps, even decades. The country's economy is developing at a relatively fast pace. With that, household income tends to enlarge as well, as should happen with Internet penetration. The strong correlation of those variables to Internet share of advertising expenditure should increase the latter. Notwithstanding, advertising overall spending should rise too.

Publishers of other media types may experience a decline in their share of advertising spending as the Internet share grows. It does not necessarily mean a decline in revenues, as the market as a whole should flourish with the development of the economy.

*ADVERTISERS.* As the Brazilian economy develops, GDP per capita grows and Internet penetration expands, investments in Internet advertising tend to become larger as well – both in absolute amounts and relatively to the overall advertising budgets. The tiny figure of 4.7% Internet share of advertising spending in Brazil as of 2010 may indicate *some* advertisers consider Internet in their media spending today while *many* advertisers do not

consider it at all. Should the number soar to 12% or 15% in the next five to seven years, advertisers will need a new set of capabilities to run Internet-based advertising campaigns.

Internet advertising has some significant differences when compared to advertising in other media types. Measurement capability is one of them. The Internet has unique tools to track and analyze consumer behavior, purchasing intention and performance. As advertisers spending more of their budgets in Internet advertisement, marketing managers will need to comprehend its full potential to improve return on marketing investment<sup>14</sup> and related marketing effectiveness metrics.

*ADVERTISING AGENCIES.* The implication related to the advertisers workforce described above is also relevant to agencies. Furthermore, agencies may need to adapt their business to a possible change in the rebate programs described in the qualitative phase of the research. Consider a hypothetical situation where Internet advertising becomes increasingly critical to advertisers who, in turn, demand agencies to include Internet in their advertising investment plans more and more. Let's analyze what could happen.

The BV rebate program was described as a way for publishers to incentivize agency media planners to prioritize one publisher (the paying entity) instead of others (its competitors). Collectively, all publishers of a given media type use BV to incentivize the choice of that media type instead of other media types. Because in the hypothetical situation Internet advertising is increasingly more demanded by advertisers, Internet publishers will be tempted to reduce or even eliminate rebate programs. Simply put, it will not be needed anymore. Rebate programs can be understood as a cost of sale. Publishers are profit-seeking enterprises and, therefore, are constantly looking for cost reduction opportunities.

### **5.2.2 To the field of marketing**

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<sup>14</sup> Return on marketing investment (ROMI) is a marketing measurement term generally determined by the revenue generated by a marketing program divided by the cost of that program. See Powell (2003) for broad description and usage of ROMI.

The economic literature has abundance of works that compare macroeconomics indices against each other to support hypothesis and illustrate ideas. A few of them served as inspiration from this thesis, such as Barro (1991) and Kaufmann et al (1999). In the field of marketing, conversely, not many examples were found during the literature review. There should be more, and the author believes this thesis contributes to the field of marketing as a first step in that direction. It should be possible to comprehend and describe much of what happens in the marketing field with observation of what happens in economies and in societies.

### **5.3 Limitations and suggestions for future research**

This research has limitations that deserve attention of the reader. Some of these limitations can be opportunities for future research. The constraints described here are either related to content or to data availability.

The disparity in advertising value of different media types was not discussed. One dollar spent in television advertising may worth more than one dollar spent in Internet advertising. Or maybe the opposite is true. Consider for example that one dollar spent in television advertising equals to a 'value index' of 1.00, that one dollar spent in Internet advertising equals to a 'value index' of 0.25 and that one dollar spent in newspaper advertising equals to a 'value index' of 0.75. Consider also those three media types to have the same audience size and the same audience profile. Advertisers in the same industry wishing to split their advertising investment uniformly among the three media would then invest 50% in television, 12.5% in Internet and 37.5% in newspaper advertising. A comprehensive comparison of advertising value of different media types certainly can contribute to the understanding of share of advertising expenditure per media type.

Not all variations of advertising and media types were considered in this research. An example would be mobile advertising, an emerging category of advertising nowadays, produced for and consumed in mobile devices as cellular phones and tables PCs. Mobile

advertising share some characteristics with Internet advertising and in many times uses the Internet to delivery and track the ads. The data on share of advertising expenditure used in the quantitative phase of this research, from ZenithOptimedia, does not include mobile advertising data – as it does not include advertising data of some other media types.

Finally, one could say that the accuracy of Internet advertising expenditure in some countries is debatable – this opinion actually appeared a few times during the in-depth interviews. Total advertising spending is composed by display advertising spending plus search advertising spending. Because Google market position is so dominant in the search advertising market in most of the countries it operates, search advertising spending reported individually in a country would virtually equals Google’s revenues there. Therefore, to prevent disclosure of strategic information, Google does not report its revenues to data collectors such as Projeto Inter-Meios in Brazil or ZenithOptimedia in other markets. The same challenge does not affect display advertising media companies. As multiple publishers generally compete in the display advertising space in most countries, an individual publisher does not incur in the risk of publicizing its sole revenues when reporting data to collectors.

Without Google’s revenues, figures of search advertising spending are likely to be insignificant in many markets around the world. Some believe the inclusion of search advertising spending would make the Internet share of advertising spending in Brazil around 10% (Interactive Advertising Bureau Brasil, 2011), more than doubling the currently reported 4.7%. Nevertheless, the absence of search advertising data in the majority of countries from the 63-country sample list, make this limitation less significant. It would be more challenging if only a few of the countries didn’t have search advertising data.

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## APPENDIX

### Protocol for the in-depth interviews – English translation

The following questions were used as the basis for the in-depth interviews presented in the qualitative section of the research. The interviews took from 40 to 50 minutes with each respondent. In many occasions respondents did not tie to the interview protocol and offered a wider view of their opinions on the subject. The original Portuguese version of the protocol follows the English translation.

**[Question 1]** How do you see Internet advertising consideration in media plans today compared to media plans of five years ago?

**[Question 2]** In your opinion, which are the main *drivers* of Internet advertising growth in the Brazilian market?

**[Question 3]** And which are the main *inhibitors* of Internet advertising growth in the Brazilian market?

**[Question 4]** In your opinion, how each of the factors below explains why online advertising is becoming more attractive to advertisers?

- a. Innovation in Internet advertising formats;
- b. Growth in broadband Internet access;
- c. Emergence of new devices capable of accessing online content and Internet applications.

**[Question 5]** In your opinion, how each of the factors below explains why Internet advertising is *not* becoming more attractive to advertisers?

- a. Market immaturity;
- b. Privacy concerns by Internet users;

- c. Internet penetration still limited when compared to other media types such as television.

**[Question 6]** Brazilian advertisers spend approximately 5% of their media budgets in Internet advertising. In the United Kingdom, Internet advertising spending is approximately 28% of total advertising spending. In your opinion, which *factors* better explain this difference?

**[Question 7]** A widely known rebate mechanism in the Brazilian advertising industry is called BV. In your opinion, does the fact that *vehicles pay BV rebates to agencies* have any influence over how advertising spending is split between different media types?

**[Question 8]** Advertising regulation in the Brazilian market blocks the operation of *media broker companies*. In your opinion, does such fact have any influence over how advertising spending is split between different media types?

**[Question 9]** Advertising regulation in the Brazilian market also stipulates *media buying* to be performed only by advertising agencies. At the same time, agencies participate in the BV rebate mechanism as recipients of the incentives paid by vehicles. In your opinion, does such fact have any influence over how advertising spending is split between different media types?

### **Protocol for the in-depth interviews – Original Portuguese version**

**[Questão 1]** Como você enxerga a consideração da publicidade na Internet em planos de mídia hoje em comparação aos planos de mídia de cinco anos atrás?

**[Questão 2]** Em sua opinião, qual são os principais fatores que *contribuem* para o crescimento da publicidade na Internet no mercado brasileiro?

**[Questão 3]** E quais são os principais fatores que *inibem* o crescimento da publicidade na Internet no mercado brasileiro?

**[Questão 4]** Em sua opinião, como cada um dos seguintes fatores explicam porque a publicidade na Internet vem se tornando mais atraente para anunciantes?

- a. Inovação nos formatos de publicidade na Internet;
- b. Crescimento no acesso banda larga à Internet;
- c. Surgimento de novos dispositivos capazes de acessar conteúdo on-line e aplicações da Internet.

**[Questão 5]** Em sua opinião, como cada um dos seguintes fatores explicam porque a publicidade na Internet *não* vem se tornando mais atraente para anunciantes?

- a. Imaturidade do mercado;
- b. Preocupações com privacidade dos usuários de Internet;
- c. Penetração da Internet ainda limitada quando comparada a outros tipos de mídia como televisão.

**[Questão 6]** Anunciantes brasileiros investem cerca de 5% dos seus orçamentos em publicidade na Internet. No Reino Unido, o investimento em publicidade na Internet é cerca de 28%. Em sua opinião, quais *fatores* explicam melhor esta diferença?

**[Questão 7]** Um mecanismo de desconto bastante conhecido no mercado brasileiro é conhecido como BV. Em sua opinião, o fato de os *veículos pagarem BV para as agências* tem alguma influência sobre como o investimento publicitário é dividido entre diferentes tipos de mídia?

**[Questão 8]** A regulamentação da atividade publicitária no mercado brasileiro impede a operação de *empresas de corretagem de mídia* (media brokers). Em

sua opinião, este fato tem alguma influência sobre como o investimento publicitário é dividido entre diferentes tipos de mídia?

**[Questão 9]** A regulamentação da atividade publicitária no mercado brasileiro também estipula que a *compra de mídia* deve ser feita apenas por agências de publicidade. Ao mesmo tempo, agências participam dos mecanismos de BV como receptores dos incentivos pagos pelos veículos. Em sua opinião, este fato tem alguma influência sobre como o investimento publicitário é dividido entre diferentes tipos de mídia?