

THE PAST, TODAY AND THE FUTURE OF ADVERTISING ECONOMICS

İnci TARI¹

ABSTRACT

The roots of oral advertising may be traced back to ancient times when the humankind first discovered commerce. However, it was not until the second half of 19th century that advertising became an “industry” with newspapers being the early earners of advertising income generated by this industry. In today’s world, global advertising industry is an essential part of global economy in the sense that almost every industry needs the support of advertising to be able to reach the consumers. On the other hand, media industry is more dependent on advertising industry perhaps more than any other sector since in most cases advertising income is an indispensable part of the media companies’ business models. However, the advertising industry has gone through fundamental changes especially since internet companies accelerated their dominance on advertising industry. This change has affected traditional media sectors deeply and today even their sustainability is under question. The purpose of this study is to explore the dependence of media sectors on advertising by collecting data from governmental institutions, business associations and credible companies with global network and provide an insight for media companies and academics on where the advertising industry is heading. United States and United Kingdom are chosen for comparison to Turkey because of the size of their advertising industry and leadership in adopting new developments

Keywords: Advertising Economics, media industry, internet advertising

¹ Assistant Professor, Vice Dean of Faculty of Communications, Head of Journalism Department, T.C. İstanbul Arel University, İstanbul, Turkey

1. INTRODUCTION

Although oral advertising may go back to the first commercial activities, the history of advertising as we know today is quite recent and may be dated back to the invention of printing presses and birth of journalism. For many centuries people used trademarks, posters, pictorial signs and hawkers as advertising tools. The first paid advertisements of the 17th century was rather informative and lacked attractiveness in contrast to colorful examples we see today. Typical advertisements of those times were for announcing a book or a play as well as lost and found items. The history of modern advertising may be assumed to start in the 19th century with industrial revolution, developments in print technology and the advent of a new profession known as the advertising agent.

By the beginning of 20th century significance of advertising was discovered and an industry generating considerable revenues was born. In a master's thesis written in 1912 by Theodore Albert Wanerus and published online by Iowa State University, the mediums for advertisement are identified as newspapers, magazines, trade journals and religious journals. The publications occasionally issued at the time are bulletins, pamphlets, leaflets, circulars published by schools, manufacturers, stores, tailoring and real estate establishments (Wanerus, 1912: 1). According to advertising historian Daniel Pope, total advertising expenditures in United States were around 104 Million Dollars in 1880, 190 Million Dollars in 1890 and reached 256 Million Dollars in 1900 (Hutchinson, 2008, p.34). Newspapers were the first medium to benefit from this industry. Magazines followed a similar pattern as newspapers but they have never been as dominant as the newspapers once were. Radios entered the scene as an advertising medium in 1922 by the first radio advertisement of AT&T's radio station WEAf. Even though 1930's were the golden years for the radio, it never challenged newspapers' dominant role in terms of advertising revenues. During the early years of 1950's radio, newspapers and magazines were the vital part of every media plan. However, televisions entered the scene quickly and became a significant part of the industry by the beginning of 1960's. Although televisions' share of the advertising industry grew rapidly, globally it took until 1996 for them to surpass newspapers' share from the industry (Zenith, 2018, p.10).

From 1996 to 2017 televisions were the number one medium for advertisers at the global level. 2017 has marked the beginning of a new era for the advertising industry. Globally, internet has become the most preferred medium of the industry which is expected to reach 579 Billion Dollars by the end of 2018 earning 37.6% of this amount (Zenith, 2018, p. 7). Although, saying that "internet is growing, traditional media is dying" is a cliché in today's world, this is an irreversible fact and internet is overtaking even televisions in many countries. However, there is another fact that must be elaborated and that is internet has a very fragmented nature and it has many sub-segments. It is very important to determine which of these sub-segments will thrive in the future.

The purpose of this study is to investigate this newly born structure of advertising economy and its implications for the media industry. In order to achieve this first the importance of advertising for each specific media segment will be determined. After this determination, the developments in advertising economies of UK and USA will be reviewed due to their pioneering role in the industry and compared to the developments in Turkey. The findings of the review will be used to identify implications for the future direction of advertising market and media industry.

2. LITERATURE REVIEW

When the research on economic aspect of advertising is reviewed the number of studies encountered are less than expected. Although a search on Google Academics convey around

two million results, the ones directly attributable to economics of advertising on a global and macro perspective are limited. In addition to being limited in number, the subject is usually studied by academics from disciplines of business and economy. In this respect, the earliest study on the economics of advertising dates back to 1912 by Theodore Albert Waner and is presented in partial fulfillment of a master's degree in political economy and sociology in The State University of Iowa. The study includes five sections named factors in advertising, the scope of modern advertising, the profession of advertising, who pays for advertising and is advertising justifiable from an economic perspective (Waner, 1912, p.1). One of the most comprehensive studies on the economics of advertising has been edited by Kyle Bagwell and includes thirty-four articles about advertising economics previously published from 1950 to 1999. The book covers topics such as an exploration of the welfare consequences of persuasive advertising and informative advertising; an analysis of informative advertising in search-goods markets and as a signal of quality in experience-goods markets; and an examination of the use of advertising to deter entry to the market by rivals, to pre-empt rivals or conversely to collude with them written by contributors such as L. Benham, G. Butters, G. Grossman, P. Milgrom, P. Nelson, G. Ramey, J. Roberts, R. Schmalensee, C. Shapiro, J. Sutton (www.e-elgar.com, October 5th, 2018). According to Bagwell, economists have shown little interest in advertising up until the end of 19th century. The research developed rapidly with both theoretical and empirical studies throughout 20th century. Table 1 provides a summary of academic work on economics of advertising.

Table 1: Academic Research on Economics of Advertising 1950-1999

Topic	Type	Academicians- Date
Advertising: Persuasion and Welfare	Theory/ Empirical	Kaldor,1950 Dixit and Norman, 1978 Fisher and McGowan, 1979 Shapiro,1980 Becker and Murphy, 1989
Advertising: Information and Welfare	Theory/ Empirical	Stigler,1961 Telser, 1964 Nelson,1970
Advertising and Search Goods	Theory	Butters, 1977 Grossman and Shapiro, 1984 Robert and Stahl, 1993 Bagwell and Ramey, 1994
Advertising and Search Goods	Empirical	Benham, 1972 Cady, 1976 Kwoka, 1984 Milyo and Waldfogel, 1999
Advertising and Product Quality Information	Theory	Schmalensee, 1978 Kihlstrom and Riordan, 1984 Milgrom and Roberts, 1986 Hertzenndorf, 1993
Advertising and Product Quality Information	Empirical	Tellis and Fornell, 1988 Caves and Greene, 1996 Thomas, Shane and Weiglet, 1998
Advertising and Market Structure	Theory	Dorfman and Steiner, 1954 Bain, 1956 Spence, 1980 Schmalensee,1983

		Bagwell and Ramey, 1987 Shaked and Sutton, 1987
Advertising and Market Structure	Empirical	Comanor and Wilson, 1979 Gasmi, Laffont and Vuong, 1992 Sutton, 1991 Slade, 1995 Kadiyali, 1996

Source: Kyle Bagwell, <http://mmrg.pbworks.com/w/file/etch/48538261/Bagwell%2001w.pdf>

In search of a more recent work, a book named *The Economics of Advertising* by F.W. Taylor published in 2013 is found. However, when investigated further it is noted that the book is republished in 2013 with original published in 1934 (<https://books.google.com.tr/>). In Turkey, a detailed search on Google or akademik.yok.gov.tr has not prevailed any books named *The Economics of Advertising* directly. A doctoral study named “The Changes at the Advertising Industry in Turkey During the Globalization Process” by Yeşim Acar is one of the most comprehensive studies at macro level. There are also a few articles addressing the global advertising industry directly. Two of the articles addressing advertising industry at a macro level directly are “On the Topography of Advertising: Turkish Case” by G. S. Gençtürk Hızal published in 2005 and *Advertising Industry in Turkey, Value Chain and Key Indicators* by Evrim Töre in 2011.

3. METHODOLOGY, SCOPE AND LIMITATIONS

The purpose of this study is to identify the importance of advertising for the media industry and the effect of the changing nature of advertising industry on media companies as well as providing an insight for the future of media industry as a whole and for Turkey. For this purpose, the following analysis pattern will be followed:

- Some background information will be provided on advertising industry;
- The importance of advertising revenues will be identified for each main media sector. Main media sectors can be defined in many ways but for the purposes of this study the selected sectors are those that obtain advertising revenues. The segments covered as the main media sectors in this study are the newspapers, televisions, internet, magazines, radio, cinema and outdoor.
- The developments in advertising industry of United States and United Kingdom will be analyzed. United States is chosen for its more than 30% of global advertising industry. Every development in United States affects the size and allocation of global advertising revenues. United Kingdom is chosen for two reasons. The first reason is that its advertising industry is the largest in Europe and fourth in the world. Second reason for choosing United Kingdom for analysis is its leadership in preferring internet as the first medium for advertising back in 2009 before any major economy.
- Finally, Turkish case will be reviewed to determine what the situation is in the country compared to global leaders in the industry.

The financial information on media industry used in this study are obtained from web pages of governmental institutions, business organizations, global private companies with huge data sources and company web pages where applicable. The information used are obtained from sources such as publicly available parts of *Global Entertainment and Media Report* prepared by PricewaterhouseCoopers, United Kingdom’s communication regulator Ofcom, World Advertising Research Center (“WARC”), Interactive Advertising Bureau (“IAB”) and global advertising agency Zenith. The limitation of this approach is that although these sources are all credible, they have different methodologies and they cover different countries using different

currencies such as dollars or pounds and making comparison difficult.

4. A SHORT HISTORY OF ADVERTISING AND ADVERTISING INDUSTRY

Ever since humankind made the first barter trade, there have been praises or criticism for the good or service traded which might be counted as the first examples of oral advertising. For thousands of years, merchants used different tactics for advertising. Symbols and pictures were used by store owners to attract the attention of even the illiterate consumers. Farmers marked their cattle to show ownership while craftsmen put their trademarks on the arts or goods they produced (Adage, 2003, para.2).

There was a lively trade life and its promotion until the fall of Roman Empire in the fourth century which marked the beginning of a darker period in terms of social and commercial life. During the mediaeval period, commerce, markets and handicraft was suppressed, literacy was limited to clergy, and people lived in villages. It was not until the 13th century that commercial activity stirred once again, and merchants started paying town criers to advertise their goods or services. This newly awakened environment prepared the invention of printing by Gutenberg in the mid 1440's. With the advent of print, people no longer had to rely on their memories to keep track of the past. Literacy increased, and new technology helped the first forms of advertising material to be seen: advertising-printed hand bills, posters, trade cards and finally the newspapers which can be described as the first mass medium. In 1477, a London printer, William Caxton was the first to post a printed ad in English, a handbill hung on a church wall announcing the sale of his prayer book (Adage, 2003, para.5-10).

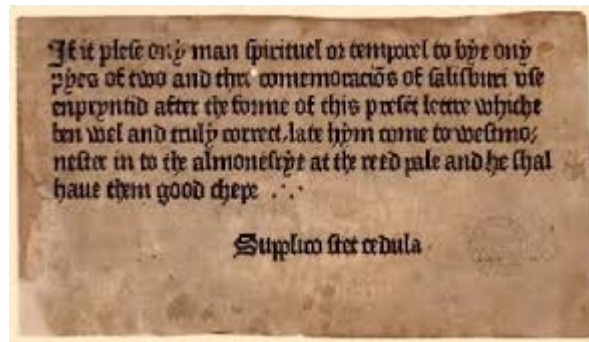


Figure 1: The First Printed Advertisement in the Form of a Handbill by William Caxton, in 1477 (McDonough and Egolf, 2002: p. 747)

The first modern advertisements appeared in British newspapers and the first newspaper officially recognized as a newspaper in Britain was London Gazette. London Gazette refused to publish advertisements in the beginning but later accepted text-only ads (McDonough and Egolf, 2002: p. 747). During the 18th century British government imposed heavy stamp duty and ad taxes which resulted in shutting down of many newspapers. Those who survived and flourished during that period have succeeded this with the help of advertising revenues (Adage, 2003, para.18). In Britain, for about a hundred years ads were about luxury goods such as coffee, tea, wines, wigs and cosmetics and directed towards the customers of coffee houses where the newspapers were read (Adage, 2003, para.19).

In United States, the idea of advertising was brought along with European colonists. However, since there was little need for advertising and scarce printing material, advertising practices were slow to flourish at the beginning. Boston News-Letter was the first regular newspaper to carry ads in 1704. In 1728, Pennsylvania Gazette founded by Benjamin Franklin was the most successful newspaper in terms of attracting advertising. Mr. Franklin also founded a magazine named General Magazine & Historical Chronicle and it was the first magazine to carry

advertising. However, magazines developed as an advertising medium a century later (Adage, 2003, para.21-23). By the end of 18th century newspapers had already established themselves as an ad medium both in Great Britain and U.S. (Adage, 2003, para.30).

Radio, which is the first representative of electronic mass medium was born early in the twentieth century and became popular in 1920's as a medium for transmitting music, news and other types of programs by radio waves (Britannica, 2018, para.1). "The first voice and music signals heard over radio waves were transmitted in December 1906 from Brant Rock, Massachusetts (just south of Boston), when Canadian experimenter Reginald Fessenden produced about an hour of talk and music for technical observers and any radio amateurs who might be listening." (Britannica, 2018, para.3). The first radio commercial was broadcasted on August 22,1922 on AT&T's New York City radio station WEAf which lasted 15 minutes and was about a real estate. However, advertising was not adopted as a revenue source for radios quickly because the authorities and broadcasters did not want to disturb the listeners. At the early years of radio broadcasting, interfering programs with advertisements was conceived somewhat immoral. Nevertheless, radio had become an established advertising by the beginning of 1930's. The years between 1930 and 1955 were marked as The Golden Ages of the radio and during this period people arranged their schedules to be able to listen their favorite programs (Britannica, 2018, para.11-17).

The radio which became a popular entertainment and news source for families from 1920's onwards was the first medium to challenge the role of printed press as an advertising platform. However, the birth of television advertising was a more important development for newspapers causing a more significant loss of advertising revenue share. Advertising was initially banned on televisions in United States until Federal Communications gave commercial licenses to 10 stations on May 2, 1941. The first legal commercial in television history was aired by NBC owned station WNBT in New York on July 1st, 1941. The advertiser was Bulova Watch and the cost of the advertisement was 9 US Dollars (Business Insider, 2016, para. 3-4). The early advertisements on televisions were mainly sponsor based. Televisions became a corner stone in many media plans throughout 1950's and US advertising billings increased from 1.3 Billion US Dollars in 1950 to 6 Billion US Dollars in 1960. Meanwhile, the first tv advertisement aired in Britain was a toothpaste ad in 1955. Due to the inexperience in this area, the first advertisements were rather like moving newspaper advertisements (Adsforlater.wordpress.com, 2009, para. 1-3).

Although televisions became a major advertising medium back in 1960's, they did not become the number one advertising medium until 1996. In 1996, televisions' share of the global advertising revenues overtook newspapers and the dominant position of televisions continued for around two decades (Zenith, 2018, p.9).

One of the major representatives of early internet advertising were banner ads. The first banner ad came in 1994 and 44% of the people who saw it clicked on it. This first banner ad was rectangle shaped banner and it was purchased by AT&T from hotwired.com. The banner ads' popularity increased quickly and in 1995 Yahoo! was able to sell a primitive banner ad which rotated the logos of five sponsor companies on its site. The first pop-up ads were also created in mid-1990's (Theatlantic.com, 2017, para.5-15).

5. BUSINESS MODELS AND THE ROLE OF ADVERTISING FOR MEDIA

Business models can be described in detail and in many ways. No matter how a business model is defined, the principle of a business model is that it outlines how a firm is making or will make its money. Media business models involve up to four basic revenue sources namely consumers, advertisers, sponsorships and business-to-business payments. The first model,

named consumer payment model may involve single purchases and/or subscriptions. Copy sales or circulation revenues of newspapers, ticket sales of cinemas or pay-tv subscriptions for televisions may be examples for consumer payment models. The second model, advertising payment model involve sales of space or time to advertisers by print media, televisions, radios as well as sales of click or view by internet sites. Sponsorship model which is the third significant revenue type for media companies may be used by almost all mediums since it is a marketing model in which the company which wants to be associated with the media brand pays for a special event, program or other activities. In return, the media brand makes the sponsor's brand name visible. Another model which can be a core business model especially for television stations is business-to-business model. In this model, syndication and licensing of content for use by other firms are utilized to generate revenues. Some media companies may use one or two of these models while others may use a combination of these or other innovative models (Picard, 2011, p.34).

Many media companies use a combination of consumer and advertiser model as a basic revenue source. Although there are some exceptions like BBC, which does not accept any advertising as an operating principle, many media companies depend on advertising revenues and compete aggressively to obtain advertising income. The degree of this dependence may vary from company to company based on the ownership structure as well as the media segment in which the company is operating in. As far as the ownership structure is concerned, government owned media companies may depend less on advertising revenues since they can benefit from supports and subsidies whereas a publicly traded media company may thrive for advertising revenues due to profit pressures from shareholders. Other than government owned institutions, some privately owned media companies may belong to political parties, employers or charity funds and thus have interests other than profit making. In that case gaining advertising income may be neglected. However, for a media company founded with commercial purposes advertising is an important revenue item. When the revenue sources of different media segments are involved, some media sectors have revenue sources other than advertising while others have more limited choices.

Regarding the advertising industry, newspapers have been the number one medium until the middle of 1990's globally and in many countries. Televisions has ceased this domination starting from 1996. However, televisions' role as the most preferred advertising medium has not been as long lasting as the newspapers. Internet's popularity accelerated beginning from the second half of 2000's. Denmark was one of the first countries in which internet became the most preferred medium for advertisers. United Kingdom was the first major economy where people spent more on internet advertising than television advertising in the first half of 2009. Internet's share of advertising revenues was recorded as 23.5% of all advertising money spent in UK whereas televisions' share stood at 21.9% (Sweeney, 2009, para.4). 2017 has been a milestone in advertising industry since internet has become the new leader. Although there are individual differences between countries, global internet advertising spending surpassed spending on all other mediums. In Turkey, internet is still the second choice of advertisers after television, but it is growing fast. In the following section, the revenue sources of major media sectors to assess their dependence on advertising income.

5.1 Newspapers

According to Vogel, newspapers are manufacturers and distributors of editorial content that they create or purchase as well as being a provider of advertising space for advertisers. They derive their revenues from a combination of advertising, newsstand and subscription sales. In the past, an average American newspaper earned 80% of its revenues from advertising while 2/3 of the newspaper page was filled with advertising (Vogel, 2011: 367). More recent research

indicates that the share of advertising revenues in total has dropped to 59% for American newspapers (Pew Research Center, 2018). Although there are differences from country to country and from company to company, World Agency of Newspapers (“WAN”) estimates that advertising makes up 41.9% of global newspaper revenues in 2017 as indicated in Table 2.

Table 2: The Composition of Global Newspaper Revenues (Million \$)

	2012	2013	2014	2015	2016	2017
Circulation	80,479	81,698	82,891	84,446	86,048	87,200
Share in Total (%)	48.1	49.8	51.6	53.6	55.8	58.1
Advertising	86,847	82,394	77,863	73,106	68,144	62,800
Share in Total (%)	51.9	50.2	48.4	46.4	44.2	41.9

Source: WAN- IFRA World Press Trends 2017 Report and <http://www.wptdatabase.org/world-press-trends-2018-facts-and-figures> (reached October 5, 2018)

According to World Press Trends 2017 report prepared yearly by WAN, in 2012, global newspaper industry had a size of 167 Billion Dollars of which 87 Billion came from advertising and 80 Billion came from circulation revenues. Advertising revenues decreased consistently since then and starting from 2014, as newspapers continued to lose the advertising budgets to internet media, circulation revenues has become the number one revenue source. According to most recent release by WAN, in 2017 the newspaper publishing revenues has been estimated to 150 Billion Dollars globally of which 59.5% comes from circulation revenues. The decrease in advertising share in newspapers’ revenues is not because advertising has become less important for newspapers in the past six years, it is because of changing advertiser preferences. Realizing the advertisers’ preference for digital media, newspapers are also struggling to obtain digital revenues. Newspapers have increased their digital revenues from 8.2 Billion in 2012 to 15.8 Billion US Dollars in 2017. Currently, nearly 11.4 Billion Dollars of this amount comes from digital advertising revenues. However, it should also be noted that digital circulation revenues are increasing more rapidly than digital advertising revenues. While it is relatively easier for international titles to obtain digital revenues, regional and local titles are in a harder situation. Financial Times, New York Times and Wall Street Journal are the international print brands which succeeded in mastering digital subscriptions.

Although advertising revenues of newspapers have been diminishing for the past six years, it should be noted that advertising is still a crucial source of income for newspapers with a share around 40% in total. Therefore, newspaper publishing industry will continue to be affected by the changes in advertising industry.

5.2 Magazines

The revenue structure of magazines is very similar to newspapers in many ways. The two main income sources are advertising and circulation of which most are still in print format with digital format growing rapidly. The difference of magazine industry from newspapers is that advertising still make slightly more than half of magazines’ revenues and it reluctant to fall as it can be observed at Table 3. Although newspapers and magazines are similar in nature, the suitability of magazine content for digital presentation have resulted in better performance of magazines in terms of digital subscription together with digital advertising.

Table 3: The Composition of Global Magazine Revenues (Million \$)

	2012	% Share	2013	% Share	2014	% Share	2015*	% Share	2016*	% Share
Circulation	47,986	49.7	47,036	49.3	47,030	49.3	47,120	49.3	47,380	49.3
Advertising	48,566	50.3	48,407	50.7	48,295	50.7	48,439	50.7	48,629	50.7

Source: PricewaterhouseCoopers Entertainment and Media Report 2015-2019 South Africa-Nigeria- Kenya, p.168.

*Forecasted by PwC.

5.3 Televisions

The business model of television industry has been problematic in the past due its nature as free to air signal transmitter. Initially broadcasters had difficulty to collect money in return for this activity. Therefore, the very first source of revenue for televisions has been public funding in UK while US preferred a more commercial approach: sponsorship. Later on, advertising and subscription helped the television industry to flourish globally (Doyle, 2002, p. 60). As it can be observed from Table 4, some countries continue to support their television industry through public funding and global public funding has reached 29 Billion Pounds in 2016. Germany, Japan and UK are the top three countries which provide substantial public funding. BBC of UK does not accept any advertising depending on the government support. Sweden, Germany, UK, France, Japan, Italy, Poland and Korea are among the countries which continue to charge annual license fee to consumers. On the other hand, the major economy of the world, namely USA do not provide any public funding to its television industry.

Currently, the three major sources of revenue for televisions are pay-tv subscription, license fees, and advertising revenues. Both pay-tv subscription and public funding can be defined as consumer business model while advertising revenue is surely derived from advertisers. The existence of three major revenue types is does not necessarily mean that all television companies have all three types of income. The type of income earned depends on the company structure and the regulations of the country in which the company operates. Just like newspapers, 42% of television income stems from advertising which makes it an important revenue source. On the contrary to newspapers, advertising has not decreased its share in total revenues.

Table 4: The Composition of Global Television Revenues (Billion £)

Billion Pounds	2012	% Share	2013	% Share	2014	% Share	2015	% Share	2016	% Share
Advertising revenues	126	40%	122	39%	126	39%	137	38%	138	42%
Subscription revenue	157	50%	160	52%	166	52%	195	54%	160	49%
Public funding	30	10%	28	9%	28	9%	29	8%	29	9%
TOTAL	313		310		320		361		366	

Source: Ofcom, International Communications Market Report 2017, p.96.

5.4 Radio, Cinema, Out-of-Home

The business model of radio industry is very similar to television industry. The three main sources of revenue for radios are advertising, subscriptions and public funding. On the contrary to televisions, subscription make up a smaller portion of total revenues while radios depend much more on advertising. Table 5 gives a summary of the revenue trend in radios' business model. United States which make up nearly 60% with 16.2 Billion Pounds of the global 27.1 Billion radio industry in 2017 has no public funding sources. On the contrary, Germany which has the largest radio industry in Europe with 2.9 Billion Pounds obtains this amount mainly through license fees. Sweden and UK also provide heavy public funding through license fees. Therefore, it might be misleading to state that radios are funded through advertising revenues due to huge differences between countries.

Table 5: Global Radio industry revenues (£bn), by source: 2012-2016

	2012	% Share	2013	% Share	2014	% Share	2015	% Share	2016	% Share
Advertising revenues	18.4	75%	18.7	75%	19.4	74%	19.8	75%	20.2	75%
Satellite subscriptions	2.2	9%	2.4	10%	2.6	10%	2.8	11%	3.0	11%
Public funding	3.9	16%	3.9	16%	4.2	16%	3.9	15%	3.9	14%
TOTAL	24.5	100%	24.0	100%		100%		100%	27.1	100%

Source: Ofcom, International Communications Market Report 2017, p.120. 100%

For cinema sector, there are two possible revenue sources. namely box-office ticket sales and advertising revenues. According to PwC Entertainment and Media 2015-2019 Report, over

90% of revenues are obtained from ticket sales while advertising accounts for only around 6-7% (PwC, 2015, p.112). Another major advertising media is out-of-home medium which includes physical and digital platforms. Out-of-home medium obtains all its revenues from advertising. Physical out-of-home medium includes billboards, street furniture like bus shelters and kiosks, transit displays like bus sides and taxi toppers, sports arena, retail mall displays and captive ad networks in venues like elevators. Digital out-of-home medium is similar, but it should have internet connection and a typical example is a smart billboard or digital screens at airports (PwC, 2015, p.232).

5.5 Internet

Whenever the internet is considered, one can automatically state that advertising is extremely important for the internet sector without a second thought. However, it is a tricky situation because reliance on advertising revenues vary from company to company operating under the internet industry. The revenue structure of "internet" is a bit more complicated when compared to other mediums. Firstly, the concept of internet involves high technology and may be related more to technology, telecommunication or communication industries rather than media industry. On the other hand, it obtains a considerable share from advertising industry and competes with all media companies for advertising dollars. Therefore, one cannot isolate internet from media industry. Secondly, the revenue sources of internet are quite diversified including internet access fees, internet service and infrastructure revenues, e-commerce, data or news subscription services, digital media services in addition to internet advertising. Most of these revenue sources like internet access and e-commerce are too big to be classified together with internet advertising under one common heading. Therefore, considering its relevance to advertising economics, internet advertising and companies operating to obtain internet advertising will be considered under this section.

Internet advertising has become an important player in advertising economy starting from the second half of 2000's and became the number one player with 37.6% share from global advertising revenues in 2017. Search and social media companies gather a vast portion of their income from internet advertising. Internet giants like Google and one of the social media leaders namely Facebook earn a very high portion of their revenues from internet advertising. These companies have a leading role in the internet advertising and thus advertising economy. Although, the degree of dependence on advertising differs from company when the portion of advertising revenues in Google's and Facebook's revenues are reviewed at Table 6, one can easily state that they are heavily dependent on advertising. Analyzing Table 6, reveals that Google is trying to diversify its revenue sources and decrease its dependence on advertising in the past few years while Facebook concentrated more on advertising revenues.

Table 6: Advertising Revenues of Google and Facebook (Million Dollars)

Google	2013	2014	2015	2016	2017
Advertising Revenue	51.072	59.624	67.390	79.383	95.375
Total Revenue	55.507	65.674	74.544	89.463	109.652
% Advertising Revenue in Total	92%	91%	90%	89%	87%
Facebook					
Advertising Revenue	6.986	11.492	17.079	26.885	39.492
Total Revenue	7.872	12.466	17.928	27.638	40.653
% Advertising Revenue in Total	%89	%92	%95	97%	98%

Source: Prepared by the author using annual reports reached at <https://abc.xyz/investor/> and <https://investor.fb.com/financials/?section=annualreports>

6. THE CURRENT PICTURE OF GLOBAL ADVERTISING INDUSTRY AND THE SITUATION IN UK, USA AND TURKEY

Global advertising industry is estimated to grow by 4.6% in 2018 and reach 579 Billion US Dollars according to Zenith. It is difficult to determine a definite size for the advertising industry because there are many mediums some large and others negligible and one must decide what to include and not to include in scope. Moreover, in some countries there is data on every segment and in others there is limited information. 579 Billion US Dollars of global size represents the major media consisting of television, internet, newspaper, magazine, out-of-home, cinema and radio. This size might be double if direct mail, sales promotion and marketing services are added. However, since there is less information available globally on these supporting activities, basically major media is reviewed. Top ten advertising economies are USA, China, Japan, UK, Germany, Brazil, South Korea, France, Australia and Canada. According to estimations Indonesia is expected to be in the top ten instead of Canada in 2020.

According to Zenith, globally, television advertising has surpassed newspapers in 1996 and internet advertising has overtaken traditional television advertising in 2017 with 37.6% share from the advertising industry. Internet advertising is also maturing, and its growth rate is slowing down, but it continues to be the fastest growing medium thanks to the faster pace of mobile internet advertising. Display which includes traditional display such as banners, online video and social media is the largest and fastest growing internet sub-category. Programmatic buying has contributed to the growth of display together with the rising trends in online video and social media. Paid search and classified stay behind of display in terms of growth rate.

Mobile advertising is the rising trend globally and this trend is valid for many nations. Global mobile advertising is estimated to be 107 Billion US Dollars in 2017 which is 52.6% of all internet advertising and 19.8% of all advertising revenues generated by major media.

USA is the largest advertising economy whereas UK is the most proactive one being the first major economy where internet advertising surpassed television and newspaper advertising both in 2009. These advertising economies are worth exploring to detect implications for Turkish advertising economy.

UNITED KINGDOM

United Kingdom is the fourth largest advertising economy in the world and largest one in Europe with an ad spending of 24.4 Billion US Dollars in 2017 (Zenith, 2018). However, the significance of United Kingdom is not just due to its size but also its innovativeness. In United Kingdom, internet has become the most preferred medium by advertisers back in 2009 surpassing both televisions and newspapers. Although Denmark is known for being one of the first countries where internet surpassed television advertising even before UK, it took until 2011 for internet to surpass newspapers in Denmark. Thus UK is known for being the first major economy where internet advertising became the most preferred medium for advertisers.

United Kingdom has shown a different pattern in advertising spending compared to global trends. Globally newspapers have lost their dominant position to televisions in 1996. However, in United Kingdom newspapers have never left their number one position until 2009. 2009 has been a turning point UK media industry because both televisions and internet surpassed newspapers in 2009.

As it can be observed from Table 7, in UK, newspapers took a share of 46.1 % of advertising revenues from among major media in 1980. Although newspapers gradually lost share to televisions from 1980 to 2000, newspapers had still a share above 40% in 2000. Starting from

2005 onwards, newspapers' loss has accelerated but the lost share went to the internet, not to televisions. While the advertising revenue share has decreased from 46.1% to 40.1% in twenty years, the drop in the period from 2000 to 2009 has been much more significant for newspapers. In summary, internet has made a destruction television has never been able to do on newspapers in UK. In the current picture, internet is

**Table 7: Change in Share of Major Advertising Mediums in UK (%)
1980-2017**

Segments	1980	1985	1990	1995	2000	2005	2009*	2010	2015	2016**	2017**
Newspapers	46.1	44.3	43.3	41.4	40.4	35,3	24,5	22,6	10,3	8,9	8,1
Television	26.9	30.0	29.9	32.5	31.5	29,3	25,4	26,8	24,2	23,4	22,7
Internet	-	-	-	-	1.0	9,8	30,4	31,9	52,2	55,1	57,0
Magazine	19.7	19.4	20.0	17.5	16.4	13,6	8,6	7,5	3,4	3,0	2,8
Outdoor	4.6	4.1	4.2	4.6	5.6	6,5	5,9	6,2	5,5	5,4	5,3
Radio	1.9	1.8	2.0	3.3	4.3	4,4	3,8	3,7	3,1	3,0	2,9
Cinema	0.8	0.5	0.6	0.7	0.7	1,1	1,4	1,3	1,2	1,2	1,2
Major Media	100	100	100	100	100	100	100	100	100	100	100

Source: Zenith Advertising Expenditure Forecasts September 2016

*2009 is included because it is the milestone in UK advertising industry.

**Based on forecasts in Zenith Advertising Expenditure Forecasts September 2016 Report

Today, internet advertising is by far the number one advertising medium in UK. According to Advertising Association/ WARC report, in 2017 UK had an advertising spending reaching 22.2 Billion Pounds². This amount includes direct mail as an advertising medium as well in addition to the mediums in Table 7. Looking at the UK advertising landscape in 2017 reveals that internet advertising is generating 11.55 Billion Pound of revenue and obtaining 52.2% share from advertising economy. The closest alternative for internet is television with 5.1 Billion Pounds of revenue and 23% share from UK advertising industry. Newspapers and magazines together account for 12.1 % of the total. Of the other mediums, direct mail also constitutes a significant portion of advertising expenditures with 1.75 Billion Pound of revenues and 7.9% share.

Although internet's share of advertising revenues are well above other mediums, it should be noted that internet is a collection of many different formats including display, search, classified and others like e-mail or in-game advertising. Display advertising has sub-segments such as banner, rich media, video and native advertising. Moreover, it is also important how you reach these formats. Initially desktop computers were used but nowadays mobile is on the rise. Social media which can be reached through desktop or mobile presents another opportunity for internet advertising. Since there is so much diversity, it would quite misleading to consider internet as unified medium where the future is easily predictable.

The first trend to watch for regarding internet is the allocation of advertising expenditures between paid for search, display, classifieds. In UK, paid-for search is the most preferred advertising format in internet. In 2017, one of every two Pounds spent on internet advertisement has been spent on search advertisements. However, the second popular format which is display advertising is increasing its share steadily since 2010. Currently 36 pounds of every 100 pound spent on internet advertising are spent on display advertising. While display advertising is on the rise, it is taking up share from mostly from classifieds. Classified internet advertising which had a share of %20 in 2010, now has a share of 13%. The increased popularity of display advertising is mainly due to increased popularity and availability of video

² This amount includes internet, television, national and regional newspaper, magazine, radio, cinema, direct mail and out-of-home ad spending. The difference between Table 7 and these figures due to different scope and since Table 7 includes estimates for 2016 and 2017 whereas WARC figures are based on 2017 actual results.

and native advertisements which are considered to be a part of display advertising.

The second point worth to underline is that increased take-up of internet and mobile have resulted in increased share of mobile advertising in total internet advertising. In 2017, 45% of internet advertising came from mobile channels generating 5.2 Billion Pounds of revenues. What is even more striking is that this amount was just 94 Million Pounds with on 2% share in total internet advertising revenues in 2010.

Third trend to watch for in the advertising economy is the adoption of an advertising technology named programmatic ad buying where buyers and sellers of advertising are matched online and the price is determined based on demand. In UK, programmatic advertising has accounted for 72% of all display advertising in 2016 and expected to reach 78 % up from 28% in 2013. Programmatic advertising has also contributed to the strong increase of display advertising in the last few years.

UNITED STATES

United States has been the biggest advertising economy in the world for a very long time. The major media advertising revenues generated by US economy amount to 197.47 Billion US Dollars and it is more than the double the size of the closest competitor which is China (Zenith, 2018). In USA, newspapers have lost their leadership position to televisions in 1995. Televisions sustained their position as the most preferred advertising medium until the end of 2016. As it can be inferred from Table 8, at first internet has obtained advertising share only from printed media but later on televisions started losing share as well.

**Table 8: Change in Share of Major Advertising Mediums in USA (%)
1980-2017**

	1980	1985	1990	1995	2000	2005	2010	2015	2016*	2017*
Newspapers	41.7	40.8	39.2	36.0	31.1	30.2	19.5	10.9	9.6	8.4
Television	32.3	34.6	3.51	36.4	33.4	33.3	37.1	36.5	35.7	34.7
Internet	-	-	-	0.1	3.8	6.0	15.5	28.3	31.7	35.1
Magazine	14.0	12.5	12.1	12.4	15.3	14.4	12.3	9.5	8.7	7.8
Outdoor	1.6	1.5	3.1	3.4	3.1	3.4	4.5	4.7	4.7	4.7
Radio	10.4	10.5	10.5	11.7	13.3	12.4	10.5	9.6	9.2	8.9
Cinema	-	-	-	-	-	0.2	0.4	0.5	0.5	0.5
Major Media	100	100	100	100	100	100	100	100	100	100

Source: Prepared by author based on data derived from Zenith Advertising Expenditure Forecasts September 2016, p. 192.

**Based on forecasts in Zenith Advertising Expenditure Forecasts September 2016 Report

It has taken a little longer for internet to surpass televisions in USA compared to UK. However, since USA is the biggest advertising economy and affects the global total significantly, when internet advertising surpassed televisions in USA, global internet advertising surpassed global television revenues as well. US internet advertising economy is estimated to be 69.2 Billion US Dollars by Zenith and 88.0 Billion US Dollars by PwC/Interactive Advertising Bureau ("IAB") due to possible methodology differences. Since IAB is a specialized institution on internet advertising, IAB figures are used for further investigation. According to IAB, internet advertising revenues have grown from 21.2 Billion US Dollars to 88.0 Billion US Dollars from 2007 to 2017 with a compound annual rate of 15.3% with a speed faster than any other medium. Mobile internet advertising has been the main driver for growth while desktop internet advertising continues to grow but at a slower pace. Paid search is the format which is most used by internet advertisers with 46% of all internet advertising in 2016 down from 48% in the previous year (IAB, 2018, p. 12).

The first trend visible in US advertising economy is that mobile is on the rise with 56% of all internet advertising revenues. Search and banner advertising are the two most popular advertising formats on mobile with 44% and 37% share from mobile advertising revenues respectively. Digital video has gained popularity with increased share from 11% to 13% in the past year (IAB, 2018, p. 13).

Second trend is US advertising economy is that social media advertising is increasing at a considerable rate and reached 22.2 Billion US Dollars with 25.2% share from the total internet advertising pie up from 2.9 Billion US Dollars and 8% share just in 2012 (IAB, 2018, p. 15).

A smaller yet interesting fact about US internet advertising is the digital audio revenues which reached 1.6 Billion US Dollars in 2017 up 39% from the previous year (IAB, 2018, p. 16).

TURKEY

According to the Advertising Agency's report published in March 2018, Turkey is the 26th largest advertising economy. Turkey is not exempt from the global advertising trends and internet is growing very rapidly in the country especially since 2011. However, Turkey differentiates from USA and UK by the fact that television is still the number one medium by far.

In Turkey the private television channels were founded in 1990's but they were quick to take the lead in the advertising economy. Analyzing the data prepared in Table 9, in 1995, newspapers were the most preferred medium with 40.3% share from the advertising revenues in Turkey with televisions having 39.5% share. The next year televisions surpassed newspapers and reached 42.3% while the share of newspapers dropped to 38.7%. Newspapers held their share above 30% until 2006 while televisions climbed up to above 50% in the same period. Internet's leap started after 2010 when internet advertising share from total increased from 6.9% in 2010 to 14.4% in 2011. From 2011 onwards, internet advertising took up share from printed media while television sustained its dominance.

**Table 9: Change in Share of Major Advertising Mediums in Turkey (%)
1995-2017**

	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
Newspapers	40.3	34.3	35.5	23.7	22.4	20.8	19.1	17.5	15.8	14.1	11.9
Television	39.5	42.5	50.3	55.9	52.3	48.7	48.7	47.6	47.3	48.5	47.3
Internet	-	-	0.8	6.9	15.0	17.1	19.1	21.5	23.8	24.7	26.7
Magazine	4.4	6.3	3.8	2.4	*	*	*	*	*	*	*
Outdoor	7.9	8.5	4.9	7.0	6.5	9.9	10.0	10.3	10.1	9.4	9.9
Radio	5.8	7.1	3.5	2.9	2.6	2.4	2.2	2.1	2.0	2.2	3.1
Cinema	2.1	1.2	1.2	1.3	1.1	1.0	1.0	1.0	1.0	1.1	1.1
Major Media	100	100	100	100	100	100	100	100	100	100	100

Source: Zenith data for Turkey starts in 1994. For 1995-2010, Zenith Advertising Expenditure Forecasts, for 2011-2017

https://www.iabturkiye.org/UploadFiles/Reports/IAB%20Turkiye_DREK05072017164528.pdf

In Turkish advertising market internet needs some time to be the dominant medium. However, many of the trends in US and UK internet advertising market are applicable to Turkey as well. Based on the analysis of IAB Turkey annual press releases (<http://www.iabturkiye.org/adex-turkiye>), and based on the information presented on Table 10, online advertising landscape in Turkey is as follows:

Mobile advertising which was 233.5 Million TL in only 2015 has grown very rapidly in the past 2 years and increased to 601.0 Million TL in 2016 and 1.093,2 Million TL in 2017. Mobile advertising now constitutes more than half of all internet advertising revenues which is

recorded to be 2,162.4 Million TL.

Display advertising is the most preferred advertising while paid for search second and classifieds are the third.

Video and native advertising are becoming popular and in-game advertising is promising. Social media advertising revenue was reported for the first time in 2015 and amounted to 208.1 Million TL. Advertising on social media increased to 262.4 Million in 2016 and 340.3 Million TL in 2017 with over 25% increase each year.

Programmatic ad buying method which matches buyers and sellers of advertising automatically has shown a tremendous increase from only 78.5 Million in 2015 to 1,4 Billion TL in 2017.

On the contrary to global trends, due to recent regulations direct mail is restricted in Turkey and has no potential for the future.

Table 10: Turkish Online Advertising Market (Million TL)

	2011	2012	2013	2014	2015	2016	2017
Online advertising	702.0	918.0	1,140.7	1,376.5	1,646.3	1,872.4	2,162.6
Display	409.0	513.0	648.6	787.2	957.5	1,059.1	1,227.8
Viewing/click based	364.0	436.0	543.6	646.7	777.0	821.4	879.7
Video	22.0	45.0	69.5	100.7	134.6	179.8	269.5
Native	23.0	32.0	35.5	39.8	45.9	58.0	78.6
Search	230.0	320.0	401.5	492.3	588.5	706.6	814.5
Classifieds	58.0	76.0	79.3	84.1	85.7	91.1	102.5
Others	5.0	9.0	11.3	12.9	14.6	15.6	17.8
e-mail	3.0	5.0	5.9	6.4	6.2	5.6	5.1
In-game advertising	2.0	4.0	5.4	6.5	8.5	10.0	12.7

Source: https://www.iabturkiye.org/UploadFiles/Reports/IAB%20Turkiye_DREK05072017164528.pdf

CONCLUSION

Although the share of advertising revenues in traditional media sectors, it is still an important part of their business model with at least 40% share in total. Alternative revenue sources do not seem to be able to cover the loss in advertising income. Therefore, traditional media companies are almost obliged to find a way to earn advertising revenues digitally.

With ever developing technology and internet access in the last two decades, it is no surprise that internet advertising has been increasing for the last decade all over the globe. Advertising economy which was once dominated by newspapers and magazines were not affected much by the invention of radio and its becoming an advertising medium in 1920's. Televisions which quickly gained popularity after 1960's did not become a threat until 1996. In 1996, globally televisions' advertising share surpassed newspapers' share while there were still countries where newspapers were able to enjoy their number one position. However, internet has threatened even the existence of newspapers perhaps more than any other medium up to now. Internet has not only challenged printed media, it also downgraded televisions and globally surpassed them in 2017.

Some experts and academicians argue that internet is not a unified medium but a collection of many smaller mediums and thus televisions should still be considered the leader of the advertising economy. Whether, internet is a unified medium or not, it is true that it has a fragmented nature. In fact, this fragmented nature could serve an opportunity for traditional

media companies. The major findings are as follows:

- Firstly, internet can be reached through desktop or mobile devices. In the past, there was only desktop but today with increased take-up of mobile internet, mobile devices and improved mobile/wireless technologies mobile advertising is on the rise.
- Secondly, display advertising and paid for search advertising are the dominant mediums depending on the country. In UK and USA, search is the dominant ad format while in Turkey display is a more preferred format.
- Display advertising has benefited from programmatic ad buying plus increased popularity of video and native advertising. In Turkey, search advertising is also increasing its share in total for the last seven years while classifieds are losing share.
- Thirdly, although still small in terms of financial size, in-game advertising is growing very rapidly and has a future potential.

Based on these findings, traditional media companies could improve their mobile applications given the increased popularity of mobile internet. Programmatic buying which seem to be working in favor of internet giants could help transactions to be more and more automatized decreasing the role of intermediaries. For this to be an advantage for traditional media companies they should increase their unique visitors. In an environment where native advertisements which look like a friend's post may surround our lives every day, traditional media companies should make more use of native advertising. Popularity of videos and online games also must be considered as a means of revenue source. Acquiring such companies or outsourcing where applicable could be a solution where it is not possible to produce them in-house. The new media of today will be the old media of tomorrow, introducing people with formats we cannot even imagine today.

REFERENCES

- Ad Age, (September 15, 2003). History: Pre-19th Century. <http://adage.com/article/adage-encyclopedia/history-pre-19th-century/98707/>
- Ad Age, (September 15, 2003). History: 1950's <http://adage.com/article/adage-encyclopedia/history-1950s/98701/>
- Ads for Later, (June 8, 2009). The History of Advertising on Television. <https://adsforlater.wordpress.com/2009/06/08/the-history-of-advertising-in-television/>
- Advertiser's Association Turkey, (2018). Media and Ad Spending Estimates in Turkey 2017 Report, <https://www2.deloitte.com/content/dam/Deloitte/tr/Documents/technology-media-telecommunications/RD%20Medya%20ve%20Reklam%20Yatirimlari%202017%20Raporu.pdf>.
- Bagwell, K. (ed.) (2001). The Economics of Advertising. Cheltenham: Edward Elgar Publishing.
- Britannica, (May 3, 2018). Radio Broadcasting. <https://www.britannica.com/topic/radio#ref301713>
- Business Insider, (July 3, 2016). Watch the first commercial in TV history, which aired 75 years ago this weekend, <http://www.businessinsider.com/watch-the-first-commercial-in-tv-history-bulova-watch-2016-7>
- Doyle, G. (2002). Understanding Media Economics. London: Sage Publications.
- Hutchinson, P. (2008). A Publisher's History of American Magazines, http://themagazinist.com/uploads/Part_4_Advertising.pdf. Reached: May 25th, 2018.

- IAB Turkey, (2017). Contribution of Digital Advertising to Economy. https://www.iabturkiye.org/UploadFiles/Reports/IAB%20Turkiye_DREK05072017164528.pdf
- IAB Turkey, (2018). Adex Reports. <http://www.iabturkiye.org/adex-turkiye>
- IAB USA, (2018). IAB Internet Advertising Revenue Report 2017 Full Year Results. https://www.iab.com/wp-content/uploads/2018/05/IAB-2017-Full-Year-Internet-Advertising-Revenue-Report.REV2_.pdf
- Küng, L. (2008). Strategic Management in the Media. London: Sage Publications.
- McDonough J., Egolf K. (2002) The Advertising Age Encyclopedia of Advertising. Chicago: Fitzroy Dearborn Publishers.
- Lafrance, A. (Apr 21, 2017). The First-Ever Banner Ad on the Web. <https://www.theatlantic.com/technology/archive/2017/04/the-first-ever-banner-ad-on-the-web/523728/>
- Pew Research Center (2018). Newspaper Fact Sheet. <http://www.journalism.org/fact-sheet/newspapers/>
- Picard, R. G. (2011). The Economics and Financing of Media Companies. New York: Fordham University Press.
- PricewaterhouseCoopers, (2015). Global Entertainment and Media Report 2015-2019, <https://www.pwc.co.za/en/assets/pdf/entertainment-and-media-outlook-2015-2019.pdf>
- Sweeney, M. (September 30, 2009). Internet overtakes television to become biggest advertising sector in the UK. <https://www.theguardian.com/media/2009/sep/30/internet-biggest-uk-advertising-sector>
- The Office of Communications, Ofcom, (2017). Communications Market Report United Kingdom. https://www.ofcom.org.uk/__data/assets/pdf_file/0017/105074/cmr-2017-uk.pdf
- The Office of Communications, Ofcom, (2017). International Communications Market Report 2017. https://www.ofcom.org.uk/__data/assets/pdf_file/0032/108896/icmr-2017.pdf
- Vogel, L. H. (2011). Entertainment Industry Economics. New York: Cambridge University Press.
- Wanerus, T. A. (1912). "The economics of advertising." MA (Master of Arts) thesis, State University of Iowa, (reached at <https://ir.uiowa.edu/etd/3600.>)
- WAN-IFRA, (2017). World Press Trends 2017, http://anp.cl/wp-content/uploads/2017/10/WAN-IFRA_WPT_2017.pdf
- The Advertising Association/ WARC, (2012). The Expenditure Report. http://expenditurereport.warc.com/FreeContent/Q4_2012.pdf
- The Advertising Association/ WARC, (2013). The Expenditure Report. http://expenditurereport.warc.com/FreeContent/Q4_2013.pdf
- The Advertising Association/ WARC, (2014). The Expenditure Report. http://expenditurereport.warc.com/FreeContent/Q4_2014.pdf
- The Advertising Association/ WARC, (2015). The Expenditure Report.

http://expenditurereport.warc.com/FreeContent/Q4_2015.pdf

The Advertising Association/ WARC, (2016). The Expenditure Report.
<http://expenditurereport.warc.com/FreeContent/AA-WARC%20FY%202016%20%28FINAL%29.pdf>

The Advertising Association/WARC, (2017). The Expenditure Report.
<http://expenditurereport.warc.com/FreeContent/AA-WARC%20FY2017.pdf>

Zenith, (2016). Advertising Expenditure Forecasts September 2016.

Zenith, (2017). Advertising Expenditure Forecasts September 2017, <https://www.aaaa.org/wp-content/uploads/2017/09/Zenith-US-Ad-Volume-Forecast-2017-09.pdf>

Zenith, (2018). Advertising Expenditure Forecasts March 2018, Executive Summary, <https://www.zenithmedia.com/wp-content/uploads/2018/03/Adspend-forecasts-March-2018-executive-summary.pdf>.