JOURNAL
k
OF ADVERTISING

American Academy of Advertising Volume 23, Number 4, December 1994-

Notes and Comments: The Death of Advertising

Roland T. Rust and Richard W. Oliver

Mass media advertising as we know it today is on its deathbed, and its prognosis is poor. Advertising agencies are restructuring to accommodate a harsher advertising climate, agency income is flat, agency employees are being laid off, *direct marketing is stealing business from traditional* ***advertising, and the growth*** of *sales promotion and integrated marketing communications both come at the expense* of *traditional advertising. The reason for advertising's impending demise is the advent* of *new technologies that have resulted in the fragmentation* of *media and markets, and the empowerment* of *consumers. In the place* of *traditional mass media advertising, a new communications environment is developing around an evolving network* of *new media, which is high capacity, interactive and multimedia. The result is a new era* of *producer-consumer interaction. Because* of *the speed* of *technological innovation, the new media advertising paradigm that results will attain prominence faster than did mass media advertising. The new paradigm of 21st Century Marketing and advertising will be dominant by 2010 and should last well into the middle of the century. If they hope to survive, university advertising departments will have about ten years to 1) think of themselves much more broadly, and 2) transform themselves into departments specializing in information transfer in the new media environment.*

Roland T. Rust (Ph.D. University of North Carolina-Chapel Hill) is professor and area head for Marketing, and Director of the Center for Services Marketing, Owen Graduate School of Management, Vanderbilt University.
Richard W. Oliver (Ph.D. SUNY Buffalo) is professor for the practice of management, Owen Graduate School of Management, Vanderbilt University, and was previously Vice President of Marketing at Northern Telecom Inc.
The authors thank Vanderbilt's Center for Services Marketing for its support of this work.

Journal of *Advertising, Volume XXIII, Number 4 December 1994*

Advertising on its Deathbed

Never has advertising appeared so pale and lifeless. Advertising expenditures as a percentage of personal consumption expenditures peaked in 1984, and have been trending down ever since (McCann-Erickson, cited in Standard & Poor's 1993, p. M17). Advertising agencies are in a state of siege, as billings shrink, layoffs abound, and accounts are lost to nontraditional players. Media fragmentation reduces the potential to reach large numbers of consumers. The **dramatic shift away from** a product-oriented economy toward a services -oriented economy reduces the effectiveness of traditional advertising approaches. Even in the product sector, mass customization and flexible manufacturing subsume the concept of mass production and mass advertising.

These dramatic changes caught ad agencies unaware. As the *Wall Street Journal* points out: "the $138 billion advertising industry seems unprepared for an interactive future" (Smith and King 1993). What's more, the agencies seem incapable of sustaining the sort of investment required to become more relevant, because "layoffs and other cutbacks have left ad agencies without the resources to reinvent themselves" (Smith and King 1993). Industry commentators worry that the big advertising agencies may not survive. For example, *Advertising Age's* Joe Cappo predicts that "By the year 2000, the advertising business we know so well will have transfonned into something new"(Cappo 1992).

The prognosticators'pessimism is supported by statistical trends from the advertising business. In spite of a dramatically growing economy over the same period of time, ad agency gross income, adjusted for inflation, has flattened since 1985 (Endicott 1994). The stagnation of earnings, threats to the traditional 15% commission rate, and increasing cost pressures forced massive layoffs in the advertising industry

(Landler 1990). Declines in employment were reported for each year from 1991 to 1993 **(Endicott 1991; Wells 1992,1993).**

Meanwhile, non-advertising marketing communication expenditures are both larger than media expenditures and are growing much faster *(The Economist* 1990). Where is the money going if not to advertising? For one thing, nontraditional "advertising" companies are beginning to make inroads with large clients. For example, the Coca-Cola Company has engaged Creative Artists Agency to handle much of the creativity of its Coke account (Bidlake 1993). Moreover, the largest portion of marketing communications dollars formerly designated for mass media now go to non-advertising communications programs such as public relations, sales promotion, sponsorships, and special events. *"Advertising Age* estimates that 65% of all marketing expenditures in the U.S. now go to these non-media sectors"(Cappo 1992).

The rise of Integrated Marketing Communications (IMC) is a result of this changing marketing environment. Advertisers require greater efficiency and coordination in reaching their target audiences through a variety of communication approaches (Levin 1993) and the large ad agencies have shown themselves to be incapable of this sort of integration (Schultz 1993).

The integration of marketing communication approaches gains importance with increased media fragmentation. The more fragmented media become, the more integration is required, and the less the task resembles that of a traditional advertising agency.

In fact, the major media show significant fragmentation over the last 40 years and the trend threatens to accelerate in the coming decade. Forty years ago, the three major TV networks had 100% share of the viewing audience. It was easy to obtain wide reach by sponsoring a popular program. By 1980, the three major networks still owned 87% of the viewing audience, but by 1990 that percentage was reduced to 62% (Nielsen Media Research 1980, 1990). The cause of the decline was the penetration of cable TV (Krugman and Rust 1987, 1993). Needless to say, the projected 500-channel TV environment will greatly accelerate the trend.

Likewise, magazine readership has become increasingly fragmented over the years. Forty years ago, big national publications such as *Life, Look,* and the *Saturday Evening Post* (many of which are now defunct) .dominated the magazine industry. By 1963, there were still only 445 consumer titles. That number tripled to 1,275 titles in 1988 (Kobak 1990). Similarly, the number of business publications has grown dramatically, from 2,255 in 1972 to 3,676 in 1991 (Kobak 1992).

The expansion of the service sector (and the accompanying relative contraction of the product sector) is equally dramatic. Service sector production in the United States (which was 56% of all production in 1959) will reach an estimated 67% in 1995 (Shugan 1994). Job growth in the service sector is even more pronounced. Service jobs were only 30% of the total in 1900, but will grow to an estimated 77% by 1995 (Bateson 1989; Shugan 1994).

Because most services, and especially the new information services, must be marketed in ways which are quite different from marketing a product, the traditional consumer goods mass marketing approach has become increasingly irrelevant. The value-added of many traditional products today is their information content (Rust and Oliver 1994). Again, the traditional advertising approach is inadequate for today's intelligent products and informationally-empowered consumer.

Finally, the development of flexible manufacturing, using robotics, transformed the old industrial paradigm of mass production (which also created mass media, mass audiences, and mass advertising) to one of mass customization, allowing "manufacturers" of both products and services to produce for market segments of one. This type of marketing calls for a radically new form of detailed, information-oriented communications, as opposed to the image-oriented 15- or 30-second spot.

How Technology Has Shaped Advertising

The above trends illustrate the effect of technology upon advertising. It is our contention that technology has always been the skeleton around which advertising was formed. If this is true, then the increasing rate at which technology is currently changing promises a radial transformation of advertising. To understand how advertising is shaped by technology, it is useful to consider how and why advertising has evolved.

Viewing branding as a primitive form, advertising can be traced back to the ancient Egyptian's bricklayers who branded their bricks (Farquahar 1989). As an advertising medium, however, bricks were rather limited. We characterize this period through the middle of the 19th century as the birth of advertising.

The rise of advertising was made possible by the advent of new printing technologies, the rise of literacy rates and consumer affluence, and other factors, which made possible mass circulation newspapers and magazines and mass audience radio programs. Not coincidentally this period coincided with the founding of J. Walter Thompson, the first modern advertising agency in the U.S. (Patrick 1993). At first the new agency served only as a media buying service, but customer demand dictated expansion into a full line of advertising services.

Advertising reached its prime in the 1950s, sparked by the popularity of a small number of major networks which made delivery of a mass audience relatively easy. Mass media created a mass audience for mass-produced products. Popular culture celebrated the advertising executive as the epitome of the postwar marketing executive. However, by the mid- 1980s, the first signs of terminal illness were evident.

Since 1985, the signs of advertising decline have been inescapable. Again, the reason is technology. The mass media could no longer deliver a mass audience. At the same time, consumers demanded more customization in their products (of which "service" was a major component) or flexibly manufactured hard goods.

The Rise of the New Media

The New Technology

Earlier, we discussed the. fragmentation of media (created by technological change) and its impact on advertising. Underlying this fragmentation, paradoxically, is the convergence of a number of industries and technologies: computers (both hardware and software), telecommunications, information services, CATV, consumer electronics, and content providers such as entertainment, news, and educational services. This convergence has created a new media market estimated at one trillion dollars (Deloitte & Touche 1993).

Most importantly in the present context, however, are the new media's rich interactive communications channels, offering consumers virtually unlimited control and a vast new array of services. One of the most exciting new services is Video Dial Tone (VDT), "the instantaneous transmission of a full range of interactive voice, data, and full-motion video services" (Rust and Oliver 1994). VDT will provide new dimensions to the rapidly growing direct marketing and home shopping services.

Together, the new media represent a vast "network of **networks," now often referred** to as the information superhighway. A technical reality (if not completely **commercialized yet), major parts** of the information superhighway are under construction all over the U.S. For example, tests of interactive TV are already being undertaken by GTE (Cerritos, California), and U.S. West, TCI, and AT&T (Denver). Tests (or partial rollouts) are being readied by Time Warner (Orlando), U.S. West (Omaha), Bell Atlantic (Virginia), Viacom and AT&T (Castro Valley, California), and BellSouth (Nashville) (Maddox 1994).

The information superhighway will become the global electronic supermarket of the 90s, uniting producers and consumers directly, instantly, and interactively. Advertising will be transformed from *involuntary* (and necessarily intrusive) to *voluntary* (and sought out). It expands consumer access to information and offers options which provide layers of additional information.

Likewise, the new media will provide more information about customers (privacy laws permitting). Rather than being a negative, as some have suggested, this will allow producers to customize both products and communications to customer needs, reducing much of the waste circulation and viewership of mass media, and lowering costs of market research, communications, and even distribution. In many ways, the new media puts the customer in control.

Mass agencies work best for mass products aimed at mass audiences. On the information superhighway, direct links between customers and producers, providing in-depth information in an interactive form, signal the death knell of traditional advertising.

The Economics of the New Media

The economics of the new media environment is likely to be unfamiliar. For example, we are accustomed to advertisers "bribing" television viewers to sit through their ads. The bribe is the program. The implicit assumption is that advertising is something unwanted by the viewer. That is generally true in the traditional mass media environment. If there is no mass market, however, the traditional economics break down.

The effectiveness of traditional mass advertising declines with the reduction of audience levels. The inevitable reaction is the transfer of resources away from traditional advertising and toward non-traditional marketing communication activities. We have already experienced a significant shift in this direction.

As the ability of receivers of mass advertising to profitably support the media declines, the financial support of the media increasingly shifts to the consumer, resulting in more pay TV and user-supported media. Meanwhile advertising-supported mass media must lower quality standards and are targets for the have-nots of the information superhighway: those who cannot afford pay programming. Clearly these trends are well underway, as we see more premium programming appearing on a pay basis, and network programming consciously targeting the economically disadvantaged (e.g., "Roseanne").

Interactive media offer the consumer a wider range of choices and, simultaneously, greater individualization. Thus it is possible to provide product and service information for the consumer, which is sufficiently well-targeted to be actually welcome. For example, a consumer who is looking for a new car may select from a wide variety of automobile information sources *voluntarily,* without any programming bribe whatsoever. The consumer may even be willing to pay for advertising under some circumstances. A precedent can be seen in the popularity of *Consumer Reports* which is essentially product information that people pay for. It is not much different in content from information-oriented advertising, such as infomercials.

The Post-Advertising World

The post-advertising world *will* be characterized by both empowerment of the consumer and new methods of marketing appropriate to the interactive environment, which we refer to collectively as "21st Century Marketing."

The Empowered Consumer

In advertising's prime, producers held virtually all of the power in the marketplace. This was true in part because their agents, the advertising agencies, controlled the then very powerful mass media. Producers controlled the products, terms and conditions of sale, and the communications environment. Power has been steadily shifting toward the consumer since the advent of television. In the late 1950s, networks took power from the ad agencies as television shows -were no longer backed by single sponsors. Instead, **the networks controlled all the time and** sold it off in little pieces. In the 1990s, the powershift continues as the networks lose power to the consumer.

With the changes in technology described earlier (and others such as bar coding, real time inventory control, and improved logistics), consumers became informationally-empowered and the muscle in the marketplace shifted dramatically in their favor. Closest to the consumer in the distribution channel, retailers became more important and powerful in comparison to manufacturers. Big retailers like Wal-Mart now dictate distribution patterns and even control the inventories of producers. Today the retailer has become the marketplace agent of the consumer and not that of the producer.

21st Century Marketing

Changes in the marketing environment to date have resulted in two marketing techniques which exploit the technology now available. These two techniques are *relationship marketing* (a broad term that can refer to alliances and relationships between channel members, but which we use here in a more restricted sense to mean the growing "relations" between the producer and consumer), which takes advantage of computer data bases to provide targeted services and product offerings (most often by direct mail) based on the customer's history of transactions with the company, and *mass customization,* which takes advantage of flexible manufacturing to make individualized products.

The technology of the information superhighway will allow these techniques to merge, providing a new marketing technique which has been referred to as . adaptive marketing" (Sheth and Gross 1988; Varki and Rust 1994). Adaptive marketing means continually revising the product offering, on an individual basis, to satisfy customer demands. Adaptive marketing is made possible in the new multi-media environnient by intelligent agents known in their primitive form as personal digital assistants (PDA's) or what will become "knowbots" (knowledge robots), computerized helpers that look out for their human "masters." The knowbot searches through the vast amount of information available to find the information that will most likely interest the consumer. The knowbot can also help design the product or service that the customer receives. Information services, easily customized, will be common on the information superhighway. For example, the MIT Media lab has an experimental electronic newspaper called the "Daily **Me," which is customized for the individual reader.**

Because the knowbot will be housed with the consumer, the key to success for the marketer will be getting past the knowbot. This means that 21st Century Marketing is likely to be preoccupied with two things: 1) making the service (remember that services will dominate the economy) easy for the consumer to customize, and 2) making information appealing to the knowbots.

The Death of Advertising

The future of 21st Century Marketing is exciting and will reach its maturity much faster than did traditional advertising and marketing. The birth or inception stage, which we are just entering, will be characterized by the provisioning of the information infrastructure and experimentation, by both producers and users, with new information services. On-line services such as Prodigy and CompuServe already have a total of over two million users. The creation of new media has been accelerated by the mergers which began in the mid 1970s and grew in the 1980s and 1990s (e.g., Sony and Columbia, AT&T and NCR). This trend will continue in the future despite the recent setbacks in the proposed mergers of TCI-Bell Atlantic and others. Small and local at first, the information superhighway will, by the turn of the century, encompass the entire U.S. The fiber optic backbone will carry a vast amount of information instantaneously from coast to coast (Rust and Oliver 1994). During this period, traditional mass media advertising will begin to diminish, while the new intelligent and individualized advertising will gain prominence.

By the year 2010, new media and the new marketing we have described will be the dominant paradigm. In a commercial context, for instance, consider the following: "a financial services salesman in New Jersey has a face-to-face meeting via computer with a client in California. While on the line, the customer tries the product. She likes it, downloads it into her computer, and the salesman bills her right then. Nobody left their office or home, and it all gets done in a nanosecond" (R.W. Oliver, in Memmott and Maney 1993). Further, industrial buyers will be linked with suppliers in sophisticated Electronic Data Interconnection (EDI) networks that will allow industrial transactions to occur at amazing quality and efficiency levels and at ever decreasing prices. Such EDI networks are already in evidence in health care, automotive production, and several other industries (Sokoll989).

In consumer markets, 21st Century Marketing, via the new media, will have radically transformed retailing as well as advertising. While some limited number of hard goods will still require in-person shopping (due to consumer preference, sizing, and the need for tactile evaluation), most goods, and virtually all services, will be bought and sold on the network. As with industrial and commercial markets, consumer information commerce will not only be technologically feasible but economically compelling (increasing speed and variety and reducing price) and ecologically imperative. The ecological tradeoff between shopping by car and shopping on the network is enormous. For example, if 100% substitution of communications for transportation could be accomplished, this would result in a savings of $123 billion annually (A.D. Little 1991). The same study showed that even a 10-20% substitution would eliminate 1.8 million tons of pollutants, save 3.5 billion gallons of gasoline, and replace three billion shopping trips annually. Obviously, shopping on the network will not replace all retail shopping as there will be a need to shop in person for some goods and the social aspects of shopping will continue to be important for some.

During this period, the last vestiges of traditional mass advertising will disappear, as the logic of the new media advertising approach begins to dominate. This period will last well into the middle of the 21st century, as the only real value of products, services and communications becomes their information content. The information content of products and services themselves will be transformed during this period into what we call "wisdom products." Such "wisdom products" will provide customers not only data and information, but knowledge and wisdom for decision making and action. Today's embryonic artificial intelligence software is an early indicator of such capabilities. Further, the information superhighway will extend to the rest of the developed world and the electronic supermarket and the intelligent information-oriented marketing communications that supports it will be global in scope and multicultural and multilingual as well as multimedia. In such a marketplace, global success and effectiveness will be determined by the breadth and depth of both the product and communications architecture.

Will Advertising Academia Survive?

Advertising departments (and their extension, the academic discipline of advertising) arose primarily to teach the knowledge and skills required in advertising agencies and to conduct basic research on the methods of creating effective mass media advertisements. The textbooks and journal articles today still

reflect the advertising environment of the prime of advertising (1950-1985). The assumptions of that fleeting historical period are now so firmly entrenched that advertising departments may be unable to change fast enough to adapt to a world in which mass media advertising is obsolete. To survive, advertising departments must broaden themselves significantly to embrace many non-traditional forms of marketing communi cations. In particular, because marketing in the 21st century will be centered on interactive multimedia, advertising departments must redefine themselves, specializing in information transfer on the information superhighway.

Advertising academia is currently a very narrow and parochial discipline. Its scope includes how to manage traditional advertising (from the agency or client company perspective), how to write advertising copy for traditional media (especially for print media, which are the oldest and most traditional!), how such ad copy works (especially print copy), and how to choose the mass media vehicles in which to advertise. The mass media focus is implicit and pervasive. All of the previously listed topics, which most would agree include the guts of current teaching and research, face virtual extinction in the next 10-15 years.

To survive, advertising academia must broaden itself significantly. One current attempt is the field of Integrated Marketing Communications, which seeks to move beyond advertising into something more inclusive. Such a move is necessary because funds are being shifted at an alarming rate from traditional advertising to other forms of marketing communications.

In the short run, advertising academia must become much more tolerant of topics which are "not advertising." Virtually the whole of marketing communications will be "not advertising" in the relatively near future, so the field of advertising must go out of its way to welcome new, broader topics before it is too late. In the long run, advertising academia will have to reinvent itself, probably including the adoption of a name other than "advertising" to describe the subject area. Some name possibilities (in addition to the existing candidate, "Integrated Marketing Communications") might include "Customer Communications," "Media Information Management," or "Information Transfer Systems." All of these names are broader than "Advertising," and need to be.

Consider how academia will need to change in the next **few years.** Some courses (e.g., advertising media) require a dramatic overhaul. Many other courses

(e.g., advertising management, advertising campaigns, and advertising strategy) reflect the agency environment to such a degree that they cannot possibly survive. The agency environment of mass media advertising is being replaced by the interactive multimedia environment. The implication is that the core of the new curriculum must reflect the emerging business realities of the information superhighway. Such new courses might include "Interactive Customer Relationships," "The History of Media," "Communicating With Knowbots," "Design of Interactive Databases," "Awareness Strategies for Interactive Services," and many others which we cannot currently visualize. Progressive advertising departments will begin to incorporate such courses now, which will encourage an orderly transition to the new environment. Ultimately, the survival of advertising academia depends upon there being a critical mass of the most influential programs spearheading this transition.

Advertising research will also need to transform itself radically. Media researchers need to stop working on reach and frequency models for mass media and focus on methods of communicating with customers on the information superhighway. Such work will require not just mathematical modelers building decision models about how to customize messages to individual customers, but also psychologists and anthropologists studying how consumers respond to the new media environment, historians documenting the momentous changes, and futurists envisioning the implications of these changes.

Researchers studying advertising copy (particularly print) should consider that magazines may soon be absorbed by the information superhighway. Understanding the information superhighway will replace ad copy research as the next "growth market" for marketing knowledge. Besides, new insights into the effects of print advertising are proceeding in very small increments today, while understanding effective communication in the interactive multimedia environment is ripe for revolutionary advances in understanding.

Summary

Advertising is on its deathbed and it will not survive long, having contracted a fatal case of new technology. Advertising's heir will be customer communications, a broader and more flexible topic which will be able to incorporate the dramatic changes introduced by the information superhighway. Academia will have to adapt quickly or it viill be hopelessly obsolete in about ten years, resulting in the dismantling of advertising departments.

References

Bateson, John E. (1989), Managing Services *Marketing, 2*nd Edi. tion, London: The Dryden Press.
Bidlake, Suzanne (1993), "Coke Unveils Global Branding Campaign," *Marketing,* (February 18), 10.
Cappo, Joe (1992), 'Agencies: Change or Die," Advertising Age, 63 (December 7) (No 50), 36-37.
Deloitte & Touche (1993), "Speeding Toward the Interactive Multimedia Age," corporate research report.
-(1990), "A Survey of the Advertising Industry: The Proof of the Pudding," *The Economist,* 315 (June 9) (No 658), 4-18.
Endicott, Craig (1991), "Annual Salary Survey," Advertising Age, 62 (November 18) (No 49), Sl-S20.
Endicott, Craig (1994), "U.S. Gross Income Outduels Foreign Side," Advertising Age, 65 (April 13) (No 16),1,8.
Farquhar, Peter (1989), "Managing Brand Equity," *Marketing Re-*
. search, (September), 24-33.
Kobak, James B. (1990), "25 Years of Change,' Folio~ 19 (March) (No 3), 83-89.
Kobak, James B. (1992), "The Life Cycles of Business Magazine," Folio, 21 (January) (No 1), 68-69.
Krugman, Dean M. and Roland T. Rust (1987), "The Impact of Cable Penetration on Network Viewing,"Journal *ofAdvertis*ing *Research, 27* (5), 9-13.
- and- (1993), "The Impact of Cable and VCR Penetration on Network Viewing: Assessing the Decade,
Journal of Advertising *Research, 33* (January/February), 6773.
Landler, Mark (1990), "A Blizzard of Pink Shps Chills Adland," Business Week, (December 10) (No 191), 210, 212.
Levin, Gary (1993), "Tearing Down the Fiefdom Walls," Advertising Age, 64 (November 1) (No 46), S 14.

Little, A.D. (1991), Telecommunications Substitution for Transpor-
tation.
Maddox, Kate (1994), "Setbacks on the Superhighway," Advertis-
ing Age, 65 (March 21) (No 12), Bl-B2.
Memrnott, Mark and Kevin Maney (1993), "USA Poised to be Mul-
timedia Superpower," USA Today, 122 (October 15) (No 2581), Bl-B2.
Nielsen Media Research (1980). 41990).
Patrick, Gary (1993), "What Goes Around Comes Around,"
Mediaweek, (May 3),8.
Rust, Roland T. and Richard W. Oliver (1994), "Video Dial Tone:
The New World of Services Marketing," Journal of Services *Marketing, forthcoming.*
Schultz, Don E. (1993), "Why Ad Agencies Are Having So Much
Trouble with IMC," *Marketing News,* 27 (April 26) (No 9), 12. Sheth, Jagdish N. and Barbara L. Gross (1988), "Parallel Develop-
ment of Marketing and Consumer Behavior: A Historical Perspective,' in Historical Perspectives in *Marketing, Terence* Nevett and Ronald A. Fullerton, eds., Lexington: D.C. Heath and Company, 9-33.
Shugan, Stephen M. (1994), "Explanations for the Growth of Ser-
vices,* in Roland T. Rust and Richard L. Oliver, eds., Service Quality: New Directions in Theory and Practice, Newbury Park, CA: Sage Publications.
Smith, Timothy K. and Thomas R. King (1993), "Madison Avenue,
Slow to Grasp Interactivity, Could Be Left Behind," Wall *Street Journal,* 122 (December 7) (No 111), Al, A8.
Sokol Phyllis K. (1989), *EDL The Competitive Edge, New* York:
~IcGraw-Hill.
Standard & Poor's (1993), Industry Surveys: Media, (February 11).
Varki, Sajeev and Roland T. Rust (1994), "Adaptive Marketing: A
Strategy for Continuously Marketing to Segments of One," Vanderbilt University working paper.
Wells, Melanie (1992), "Annual Salary Survey," *Advertising Age,*
63 (December 7) (No 50), 29-40.
- (1993), "Annual Salary Survey,* Advertising Age,
64 (December 6) (No 51), Sl-S10.