Chapter II

Economic Issues in Advertising via E-Mail: Role for a Trusted Third Party?

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Abstract

By any measure, e-mail turns out to be one of most effective and useful features offered by the Internet. However, by providing an unprecedented level of personalized communication opportunities, e-mail has also become a favorite tool for commercial advertising which has led to the problem of unsolicited commercial e-mailing (UCE). Popular press is full of articles outlining that businesses spend billions of dollars every year to combat UCE (also termed as “spam” in literature). This chapter looks at the issues in e-mail advertising via a business model termed as Admediation which facilitates e-mail advertising. Admediary is a trusted third party that facilitates a
mutually desirable communication between buyers and sellers via e-mail and operates under “opt-in” mode, which is widely supported by consumer advocacy groups. At the end we summarize the viability of Admediation and its impact on e-mail advertising.

Introduction

Astronomical growth of e-commerce has turned the Internet into a domain of intense corporate activity. E-commerce has provided opportunities for companies, irrespective of their size, to compete globally. This has prompted traditional market-players to adapt e-commerce business strategies to remain competitive in this electronic marketplace. Along with other business functions, there has been a remarkable boost in online marketing activity, with companies attempting to develop new methodologies to more effectively market their wares online. According to the Interactive Advertising Bureau\(^1\), online ad spending in the U.S. totaled nearly $2.2 billion in the fourth quarter of 2003, up more than 38% from the same period in 2002, and increased 22% over the third quarter of 2003. For all of 2003, this number totaled just under $7.3 billion, up nearly 21% from the 2002 total of $6.0 billion. As the number of Internet users, estimated at 300 million as of May 2004 among 13 countries/regions\(^2\), continues to grow, this trend is expected to continue.

Internet technologies offer a number of options for pursuing online advertising. The majority of current advertising dollars are generated through banner advertising and content sponsorship over the Web\(^3\). However, according to e-Marketer, an online market research company, e-mail stands out as the “killer-app” of the online advertising world. This is because e-mail can be precision-targeted, responded to instantly, and unbelievably cheap. Furthermore, it offers opportunities for private communication, and, when properly utilized, helps build consumer trust on a long-term basis. But since its inception, this mode of advertising has been plagued by a problem commonly termed as unsolicited commercial e-mailing (UCE), or spam.

The problem of UCE arises due to the peculiar cost structures inherent with e-mail advertising. Sellers can relatively easily obtain unprocessed lists of e-mail addresses, and the cost of sending e-mail solicitations to these lists is minimal. The task of tailoring the lists to target likely consumers is quite expensive, and often is not feasible due to unavailability of the necessary information to identify interested consumers. From a seller’s perspective, it makes economic sense to simply flood the entire list with solicitations, as they become cost effective even at extremely low response rates. The incentives to do so are especially high for smaller establishments that can ill-afford the traditional and more expensive advertising channels and for establishments that care little about the negative public stigma associated with UCE. In fact, the majority of solicitations are for objectionable products and services, which are often illegal and fraudulent. Well-established and reputable firms have shied away from UCE as it has become synonymous with fraud.

Costs born by UCE senders are minimal. Software for extracting e-mail addresses from the Web and list servers are available at minimal costs. Using UCE makes perfect
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