Financial Markets and Online Advertising Demand: Reevaluating the Dotcom Investment Bubble

Matthew Crain
University of Illinois, Urbana-Champaign
USA
Mattcrain1@gmail.com

Abstract

This paper outlines the connections between the dotcom investment bubble and the growth of online advertising. In the latter half of the 1990s, speculative investors funded the lavish advertising expenditures of a host of largely unprofitable dotcom companies through which billions of dollars poured into the nascent online advertising sector. This generated a surge of demand for online ad services and helped to legitimize the internet as an advertising channel. These outlays were rationalized through a New Economy ideology that greatly privileged marketing practices. Advertising became the cornerstone of dotcom business strategy, necessary to not only win customers, but also to attract essential investment capital. While the period is often dismissed as a false start in the history of the web's commercial development, it is better conceived of as highly generative of modern structures of online advertising.

Keywords

online advertising; dotcom bubble; financial markets; venture capital; new economy

The political economic structures of the internet impact the types of communication it enables. Platforms like Twitter have been lauded for their roles as facilitators of political and cultural participation, yet these companies also seek to monetize their users' activities, political or otherwise. In this capacity social media are a recent iteration of a more general marketing function that has been under construction on the internet since the inception of commercial online services and the world wide web over two decades ago. Although topics such as digital labor (Scholz, 2013), dataveillance (Zimmer, 2008) and networked publics (Papacharissi, 2010) have received much needed attention, scholarship offering critical narratives of the history of the web's commercialization remains sparse (Turow, 2012).

This paper addresses this gap by outlining the connections between the dotcom investment bubble and the growth of online advertising, a central but often overlooked component of the web's commercial development. One tendency has been to gloss over the 1990s as a prosaic era of banners and pop-ups, a false start in the history of online advertising that was swept away in the bubble's collapse. The real action begins in the early 2000s with Google's refinement of keyword advertising and implementation of the pay-per-click model, so the story goes.

The counter-argument presented here is that the banner era, in conjunction with the dotcom bubble, is better conceived of as highly generative of modern structures of online advertising. Soaring investment markets and the developing advertising sector entered into a pattern of mutual reinforcement that began in 1995 and intensified until the bubble collapsed in 2000. This paper introduces just one facet of this broadly generative capacity: the production of demand for online advertising services.

In the context of financial speculation, public and private investors funded the lavish advertising expenditures of a host of largely unprofitable dotcom companies. Through these conduits billions of dollars of investment capital poured into the nascent online advertising sector, generating a surge of demand for online ad services and legitimizing the internet as an advertising channel. These outlays, which would have previously been marked as risky, were rationalized through a New Economy ideology that greatly privileged marketing practices. Established measures of financial assessment such as profitability were superseded by marketing-based metrics such as “mindshare” (Morgan Stanley, 1996). A “Get Big Fast” business model based on rapid expansion and brand recognition became normalized among dotcoms looking to commercialize “cyberspace” (Kirsch & Goldfarb, 2008).

Venture capital investment reached unprecedented levels, financial markets soared, and marketing practices such as advertising and public relations became the cornerstone of dotcom business strategy, the key competitive weapon in the struggle to not only win customers, but also to attract essential investment capital. In just one example, an Interpublic ad agency reported that its dotcom clients planned to spend in excess of $1 billion in the fourth quarter of 1999, roughly equivalent to the annual US ad spending of McDonald’s and Burger King combined (Hwang, 1999). Dotcoms such as Webvan, Value America, Home Grocer, CNET, and AltaVista each announced $100 million plus ad campaigns (Cuneo, 1999; Gilbert, 2000; Kawamoto, 2000; Williamson, 2000). While some of these outlays went to offline platforms (e.g. there were 17 dotcom spots in the 2000 Super Bowl), dotcoms contributed more resources to online advertising than any other group throughout the bubble period, accounting for between half to three-quarters of all internet advertising expenditures annually between 1996 and 2000 (Elsworth, 1997; Featherly, 2000).

Working within the economic rationality of Get Big Fast, public and private investors provided the funding and managerial leadership that drove dotcom ad spending. For venture capitalists, advertising was a means to build valuation prior to exiting investments via IPOs or acquisitions. In 1999 *Advertising Age* reported that “as much as 80%” of venture financing given to internet companies was being spent on advertising (Williamson & Cuneo, 1999). Likewise, there is evidence that capital generated from IPOs went directly to fund advertising campaigns. In one example, the dotcom E-Stamp committed 65% of its $110 million IPO windfall to “ads, marketing and brand-building” efforts (“E-Stamp,” 1999). SEC filings from a sample of 166 Nasdaq-listed companies reveal that the average dotcom spent 75 cents on advertising for every dollar of revenue, while offline counterparts spent five (“Advertising to sales ratios,” 1999).

This tremendous emphasis on advertising was a direct extension of the heightened importance of marketing within financial processes, which had strong material as well as ideological manifestations. At one level, this trend played out through the changes in more or less concrete practices of financial asset-valuation noted above. More broadly, it was the material outcome of the New Economy ideology of investment and business management. For publicly traded but unprofitable dotcoms, spending on marketing was one of the only ways to attract new investors and keep current ones appeased. Spending your last dime on advertising was rational in an economic context where “mindshare” and market share were paramount indicators of value and gateways to further investment capital. Indeed in the New Economy, advertising was perhaps the sole mandatory business expense.

Dotcoms with a strong market position and positive media profile found it much easier to attract investors, while securing finance capital through IPOs and other means functioned as public relations events in their own right. At the same time, those with investment funding could spend heavily on advertising to further build market share and enhance brand image, which in turn aided fundraising. This powerful feedback loop had the effect of rapidly increasing the scale and scope of online marketing activities during the bubble period. Dotcom ad spending drove demand within the emerging online advertising market, propping up the balance sheets of web publishers like Yahoo, ISPs like AOL, and ad networks like DoubleClick. It was the engine of the online ad sector’s growth and as such contributed to the broader legitimation of the internet as a channel for commercial messages.

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