



## What to think of targeted advertising?

By [Paul Belleflamme](#) 19 April 2013 44



### “Know Thy Customers!”

This is the very first motto of marketing. The idea behind this motto is simple: the more information a firm has about its current and potential customers, the more it can segment its customer base into smaller groups, to which specific prices, product features and ads can be adjusted. Thereby, the firm has the potential to increase not only its sales (by informing customers about – and by making them buy – products that are closer to their needs or tastes), but also the margin it makes on each sale (as customers can be charged prices that are closer to the maximum amount that they are willing to pay).

Up to three or four decades ago, knowing one's customers was more easily said than done: collecting and processing relevant information was as costly as adjusting the product range and prices on a regular basis. Things are, however, completely different today. The massive

deployment of information technologies and of the Internet has indeed equipped firms with unprecedented tools to gather and process detailed information about their potential customers. As a result, achieving an increasingly finer segmentation of customer bases is made not only widely possible, but also commercially feasible.

### Targeted advertising

The most visible part is *targeted advertising*. When surfing the Internet, you must have noticed that the ads you are exposed to are closely connected to pages you visited or to items you bought (or considered buying) in the past. This is of course no coincidence: Internet advertising is increasingly targeted so as to raise the chances that the right person sees the right ad at the right time. Targeting relies on a number of proxies: online web activities of consumers are tracked; mobile web activities too (with the added advantage of localizing consumers); the historical demographics of consumers visiting a particular web page is used to predict this web page access in the future; implied interest is inferred from search words; automated systems select and serve ads on the basis of the content displayed to the user; etc.

Note that targeted advertising is by no means limited to the Internet. For instance, [the UK's two big pay-TV operators will soon start showing targeted ads to viewers in 2013](#). Similar tools are also [transposed to the off-line, brick-and-mortar, world](#).

### Good news for firms, bad news for consumers?

At first glance, all this is good news for firms and, conversely, bad news for consumers. Yet, this claim has to be qualified in at least two ways.

#### The effects of competition

First, *competition forces have to be taken into account*. As explained in [Belleflamme and Peitz](#) (2010, p. 194),

“In monopolistic industries, more information and a wider range of tariff instruments can only increase the firm's profits (at the expense of consumer surplus, the effect on welfare being ambiguous). In oligopolistic industries (or in monopoly markets in which the monopolist lacks commitment power), however, it is much less clear whether more information and more instruments translate into higher profits. The positive surplus-extracting effect of price discrimination may be offset by its negative competition-enhancing effect.”

The last sentence deserves some explanations. The “surplus-extracting effect” is the one I described above: by knowing its consumers better, the firm can charge them higher prices (thereby reducing the “consumer surplus”, which is computed as the difference between the maximum price that a consumer would agree to pay and the price that she actually pays). As for the “competition-enhancing effect”, it corresponds to the idea that if a firm can tell its own loyal consumers apart from those of its competitor, it can set lower prices so as to target aggressively the rival's customer base. As the other firm will act likewise, competition will increase.

Nicola Jentzsch, Geza Sapi, and Irina Suleymanova further develop this issue in an article recently published in the [International Journal of Industrial Organization](#) (entitled “Targeted pricing and customer data sharing among rivals”; you can find the working paper version [here](#)). They examine the incentives of competing firms not only to use but also to share detailed information about their customers. Their main results can be summarized as follows:

“First, information sharing incentives depend on the type of customer data, more precisely, only data on the flexibility [i.e., the ease with which consumers can substitute one brand for another] of consumers are shared. Second, the incentives to share such data depend on consumer heterogeneity in flexibility. Firms have stronger incentives to share data, when consumers are relatively homogeneous in their reaction to price changes. Third, customer data sharing is most likely to be detrimental to consumer surplus, while the effect on social welfare can be positive.”

So, according to their model, sharing customer data that can be used for price discrimination can turn out to be a profitable strategy for competing firms. As this strategy is likely to harm consumers, the authors advise competition authorities to pay more attention to customer data sharing agreements and to include competitive price discrimination as a possible theory of harm.

### Ad-avoidance

The second reservation is that *there are two reasons for which consumers may not necessarily suffer from the firms' increased ability to discover details about them*. On the one hand, targeted advertising may increase the relevance of the ads that consumers are exposed to, which is beneficial for them. On the other hand, if the first effect does not work, consumers still have the possibility to use advertising-avoidance tools. This is what Justin P. Johnson examines in an article published in the [Spring 2013 issue of the RAND Journal of Economics](#) (“[Targeted advertising and advertising avoidance](#)”). He first notes that

“a variety of techniques exist that allow consumers to avoid advertising, from the time-tested ignoring of ads or changing of the channel during commercials to recent innovations such as skipping past ads (while watching content stored on a digital video recorder; DVR), blocking online ads, filtering email, or subscribing to do-not-call, do-not-mail, or do-not-track programs.”

(For a do-not-track program, see for instance [www.abine.com](http://www.abine.com)). In this context, how does targeted advertising affect market outcomes? Here are the author's main findings:

“[I]mproved targeting raises the profits of all firms. This is despite the fact that consumers endogenously adjust their advertising-avoidance decisions and that (...) competition may increase for some available ad space. Consumers do not fare as well. Although they may gain by witnessing more-relevant ads, there are two negative consequences of improved targeting. One is that the number of ads received may increase, which is bad for consumers because, in equilibrium, they tend to disdain marginal ads although they may appreciate inframarginal ones. The other is that, rather counterintuitively, improved information accuracy may lead consumers to receive ads that they prefer less than those that they receive when targeting is less precise.”



Source: [www.digitaltrends.com](http://www.digitaltrends.com)

It seems thus that firms end up benefiting – and consumers end up suffering – from targeted advertising, even if consumers have somehow the possibility to avoid the intrusion of ads. Simon Anderson and Joshua Gans also share this view in their paper entitled “Platform Siphoning: Ad-Avoidance and Media Content” ([American Economic Journal: Microeconomics, 2011](#); you can find the working paper version [here](#)). The difference with Johnson's analysis is that Anderson and Gans also examine the impact of ad avoidance on the provision of content. For an informal account of the findings of this paper, see this [blog entry](#) of Joshua Gans on Digitopoly.

### What do you think?

Do you see targeted advertising as an invasion of your privacy? If yes, do you already use (or intend to use) some ad-avoidance or do-not-track technology? In contrast, do you consider it as something positive (as it increases the chance that you will be made aware of products that you like), or as a necessary evil (“I have to accept some invasion of my privacy to keep, e.g., Facebook free of charge”)?

Express your own opinion and try to find on the web to which extend others share your opinion.



#### About Paul Belleflamme

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## 44 Responses to *What to think of targeted advertising?*



**Jose Luis Morais** 28 March 2014 at 17:23 <#>

Do I see targeted advertising as an invasion on my privacy? Or on the other hand do I consider it as a positive contribute, in the sense that it enables me to be more aware of products and services that are appealing to me, or simply do I see it as an inevitable and necessary evil?

Frankly, the perception is mixed and blurry. Before I started scribbling these lines, I turned on the internet, and by default the Google page popped up. At the bottom of the page, a discrete message indicated that the company used cookies, in order to provide its services and that the user agreed upon its utilization. A pop-up was available to learn "more" about the company's policies. I pressed it for the first time in many, many years and somehow felt more comfortable; after all, my perception about Google is favorable and I value its services and reputation. I cannot imagine life without it. As a next step, after noticing that the discrete message had simply vanished and replaced by "terms and conditions", I looked for the definition of Google. The Oxford online dictionary defined it (transitive verb) as the search for information about someone or something on the Internet using the search engine Google; the origin dates back to the 1990s, from the proprietary name of the search engine.

Subsequently I used Google Scholar and came across, among others, the two interesting articles mentioned in the blog, specifically by Simon Anderson and Joshua Gans (2011), and Justin Johnson (2013), which I perused. One of the articles that drew my attention was written by Avner Levin of Ryerson University in Canada (2012).

In this article, Avner Levin presents the results of a research project into privacy and social media concerns in the context of targeted online advertising. The purpose of this project, which relied on online surveys of some 1300 young university students, was to search for answers, from a threefold perspective:

- What are the attitudes, perceptions and concerns of consumers about online advertising as it relates to their personal information on social media?
- What is the behavior of consumers on social media and the internet as it relates to online advertising?
- What is the knowledge of consumers about privacy issues and threats related to online advertising?

In order to contextualize my perceptions to the issues raised in the very first paragraph above, I proceed by comparing my views with the results to some of the statements included in the survey.

Like the majority of the respondents (73%) I feel that I am entitled to online privacy, a right for which I should not have to pay, an apparent contradiction as I value, for instance, Google "free" services and acknowledge that the company needs revenue (advertising sales) in order to provide and maintain its quality. So, as the majority (60%) I am resigned to the existence of online advertising while being aware of the function of cookies and not intending to change the online behavior (66%) to avoid sites that collect data about users for targeted ads. Like the majority (83%) I would not pay to avoid targeted ads. So it appears that many of these students and I share a conundrum; on one hand, we want our privacy protected, but on the other hand we acknowledge the necessity for online advertising. A possible explanation for this contradiction is that only a third view targeted advertising as actually targeting the products and services that are of personal interest.

Curiously when considering the answers to statements regarding shopping online, privacy concerns (68%), and assurance that purchase data will not be retained for more than three months (57%) do not top issues like fraud and spam protection (81% and 77% respectively). Personally, I share these views, and actually shop online exclusively with reputable names, like Amazon. Again, like most respondents, I would not pay to avoid collection of personal information.

The attitudes and behaviors of consumers, according to this panel and my own perceptions, with respect to online advertising appear not to present a coherent picture, eventually because IT is evolving. Consumers purport to ignore and dislike all forms of advertisement, yet many believe that targeted ads are a fact of life and something they are willing to endure, an idea, actually shared by Frederik Borgesius in his article "Behavioral Targeting: A European Legal Perspective." (2013).

Similarly, on the whole respondents and I display privacy concerns, while simultaneously not revealing seriously considering changing online activities in the face of data gathering and profiling, in spite of a firm belief that privacy is a right.

On the other hand, as targeting likely becomes more effective than respondents and I take it to be, disinterest in action suggests either a worrisome acceptance, at least to privacy advocates, of the commercial use of private information, or possibly an expectation for regulatory intervention. In this regard, it is interesting to read the article by Frederik Borgesius, mentioned above. Recall that the right to data protection is enshrined in the 2000 Charter of Fundamental Rights of the European Union, article 8. Moreover, data gathering and profiling is moving to bricks-and-mortar retailers, as advanced by the Economist in an article "Retail technology. We snoop to conquer", published on February 9th, 2013.

I have to admit that sporadically I run Piriform's Ccleaner program, which among other things eliminates cookies. I have actually just run it and then, while reading the Economist article, I was confronted with the following message: "Our cookie policy has changed. Review our cookies policy for more details and to change your cookie preferences. By continuing to browse this site you are agreeing to our use of cookies."

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Like:  0

REPLY



**Paul Belleflamme** 18 April 2014 at 09:07 <#>

Thanks for sharing your opinion and for the excellent references that you provide.

REPLY



**Thibaut Debruxelles** 2 May 2013 at 13:52 <#>

In my opinion I would say that targeted advertising has a lot of advantages and disadvantages. It's really hard to form an opinion about that and so I'll give all my feelings about this type of advertising.

First of all I would say that advertising (and targeted advertising) is not a bad thing. For the time being everything is changing and there are new technologies every day. Advertisers make sure that we see the new products' ads to enhance us buying it. But if we hadn't looked at those ads, we wouldn't have been aware of the creation of the new products : advertising creates needs.

Is targeted advertising an invasion of my privacy ? Yes and no. Sure they use my data (principally found thanks to the Internet and Facebook) to target me with products that are suitable to me. But I don't consider it as an invasion because I have learned that stuff. After 4 years study, I know how marketers and managers proceed (in a theoretical way) and so how they target us. So I acquired the keys to counter this target, by hiding some information on website or refusing giving some others you can easily avoid a part of those advertisements. But it's interesting to note that even if you are aware of those strategies, you'll still be influenced by all those ads.

I also protect myself from targeted advertisements thanks to programs like Ad Block (<http://adblockplus.org>). This program allow you to surf on the Internet without being attacked by advertisements every time. I made the test to write this comment and removed Ad Block for a moment. It was horrible : ads everywhere on every web pages. And now I understand when people say that ads are invading their privacy. But those ads allow us to have free access to some services (like Facebook), so they are also necessary.

There are advantages and disadvantages, it's undeniable. But why fighting against targeted advertising ? It wouldn't have any consequences in my opinion : marketers have developed tools to improve the sales and the marketing campaigns (targeting). It is really effective and it sounds weird to remove tools of those workers. Moreover, I don't think it would be useful to fight against targeted advertising because there will be targeting all the time.

Finally, advertisements create a little bit our culture, like Coca-Cola trucks during Christmas. The ads are now part of everyone's life and advertising (and targeted advertising) remains a necessity and a big opportunity for marketers thanks to the new facilities of collecting personal data in the Internet principally.

Like:  0

REPLY



**Sophie Simonis** 2 May 2013 at 13:52 <#>

I think that targeted advertising is not really an invasion of privacy. Indeed, if only information about the types of purchases and research that the consumer does on the internet is used, I do not think it's dramatic. By cons, if programs are beginning to use personal information such as address or anything else having no direct connection with the purchase behavior, I believe that an ethical problem exists. However, I would prefer that it be mandatory to have prior consent of the consumer to use any personal information. For this reason, I find that the use of cookies is neither fair and neither very ethical.

I actually use an ad-avoidance tool to avoid being overrun with ads when I surf on the Internet. But I do this mainly for not receiving "abusive" ads that are precisely not at all related to my interests. Thus, advertising that I try to avoid is not targeted advertising but "random" advertising. Besides, I am sometimes happy to see ads for products or activities that interest me, without which I would have probably never been aware of their existence. I think that the consumer has to sort and use critical judgment.

In addition, it seems to me inevitable that free websites like Facebook or Youtube use advertising to remain profitable. On my point of view, if the consumer wants to continue to benefit from these services for free, he must accept the negative counterpart of advertising.

Like:  0

REPLY

**Daniel Scurtu** 2 May 2013 at 13:41 #

I would like to talk a little more about the issue from the consumers' point of view, and how firms need to see things from that perspective.

I think it most definitely is an invasion of privacy. If we just take a look at how well targeted they are, we can often guess what type of information the advertiser knows about you... I assume that if most people looked at it in detail, they'd feel like the companies knew way too much about them, without the consumers ever having actively given that information away or agreed to information gathering or at least seen a warning. In fact, while 15 years ago the most common type of security threat to your computer was a virus or a Trojan, the most common one today is adware: information gatherers for those that sell your information to advertisers.

I think it's a bit ironic how much information the companies know about their consumers, but for all that plethora of knowledge, they haven't taken the time to really know their customers.

Nowadays, when competition is fierce, companies often use a lock-in and switching cost strategy. The worst part about it? It's deceptive. And when consumers realize they've been duped into giving away more money just so they don't waste their first investment, they're usually not happy, if not neutral.

With the world of online targeted advertising... consumers are not different.

So transparency and honesty are important to consumers, they can make or break a relationship with a firm.

The other important thing to know is that consumers are not that ignorant, they are more aware, and if they are underestimated by the companies, they don't react well.

The truth is, surprisingly, that people don't hate advertising as much as the world thinks. This is especially true when the two-sided platform makes that clear and gives the users more options.

Free flash games are a great example for this. Advertising is the usual way to make money for people who make games for sites such as addictinggames.com. However, developers have discovered that often more revenue can be generated from people who love the games than those that play them for free in exchange for being exposed to ads. That is not to underestimate the power of the free player base. There have been games where the classical business model failed (pay once or pay per month), but when the game went advertising-based freemium mode, it exploded in popularity.

Moral of this story is that consumers will accept being exposed to ads if they are getting enough value in return. So I believe that associating the ad with something the consumer desires can potentially provide much better and much more positive exposure for a firm and for the two-sided platform provider.

Some people pay to avoid ads!

For some consumers, the opportunity cost of whatever they are doing could be very high. In that case, it only makes sense that they would spend extra money in order to hasten a process and get rid of advertising. If my job makes me 50 euro/hour, it makes sense to pay 5 cents to get rid of 30 seconds of advertising.

And another thing that matters to consumers is the bait-and-switch... or just the switch. Youtube has been receiving some negative feedback recently, when they started to run ads and monetize the website. It is a change from the previous model, where consumers could view videos for free... without any significant improvement in value provided. But what really got consumers was the fact that Youtube now allots more bandwidth to ADS than it does to videos, resulting in people getting 30 second HD ads that load before you can press the skip button, and low-res videos that need to pause to stream.

So the status-quo matters. If for a long time consumers are used to a certain service at a certain value, they need something in return if firms starts flooding them with ads.

So the bottom line is... it depends. Firms have a lot of options when it comes to advertising and gathering revenue. In order not to cause negative feelings among their consumer base when extracting surplus, they need to provide value and not be deceptive about the whole process...

There are some companies, such as EA, that are legendary for the ways they extract consumer surplus. They sometimes end up spending as much money on figuring out ways to extract this surplus than they do providing value, and in the end the quality of the products and services might suffer.

They are still on the market, partly due to no significant alternatives being available, but once enough anger has been accumulated towards them from consumers who clearly aren't as oblivious as the firms would like them, competitors might arise to challenge the mainstream business model.

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Like: 0

REPLY



**Shoira Mukhsinova** 2 May 2013 at 10:25 <#>

As a consumer, we like to say "no adds", we also do not like that our behavior in the web is monitored and additionally, we want free online services. Consumers have far realized that free services come for a cost. Advertisers represent the money side of most of the two-sided platforms. As long as users are subsidized, advertisements need to be there to keep the platforms free. Targeted advertising is not necessarily evil. As a user would be exposed to advertisements anyway. When advertisements can detect user's needs and show the most relevant ads, it is less annoying to the user while at the same time advantageous to the advertiser. Ability to Skipping ads enables people to feel they have a choice, and people like having choices. Additionally, consumers are now given the choice of either accepting or not accepting cookies.

Targeted advertisements has positive indirect network effects a user. Since, targeted ads are advantageous for the money side of the platform as well as the users. If the money side of the platform make profit, the platforms will stay free for users. The cost users have to pay is seeing the advertisements, or skipping it explicitly. We are exposed to advertisements in many platforms, when listening to the radio, watching TV and the web became the next platform. As long as advertisements stay informative.

I don't use ad-avoidance technology, however I skip ads and avoid cookies when possible. What I don't feel comfortable is search engines adjusting the search results based on our profiles. Nowadays, tracking user behavior has become a common practice, which put firms in disadvantageous position if they don't do it, thus accelerating the adoption of the technique. However, not all the consumers are aware that their browsing behavior is being tracked. Users should be informed on which bases of the personalization is made.

Like: 0

REPLY



**Georgios Asoutis** 2 May 2013 at 09:56 <#>

In my opinion targeted advertising is clearly a privacy infringement even though it may have economic benefits for both consumers and firms. The main reason that could explain why people are willing to accept marketing companies tracking their web activities is the mass behavior. Nobody would accept being followed in his workplace, or when shopping in supermarkets, in malls and stores or when watching a movie in the cinema but strangely enough people voluntarily offer their personal data to big web companies such as facebook, simply because everyone does so. Moreover, the importance of privacy issues in the web is not as apparent as in real life, as the web gives a false sense of anonymity.

Personally I use ad-avoidance and do-not-track technologies despite the fact that in this way I miss the chance of better offers in products that I am interested in. In economic terms, I prefer most of the times to pay a premium (higher prices) instead of allowing firms having my personal data collected and assessed.

One of the arguments in favor of targeted advertising is that clients can be provided with "Next-best-offers" very quickly and without facing search costs. I feel that this argument is not really relevant as consumers had the chance to obtain information about new products and also discounts by registering themselves in newsletters services since the early 2000's. For example I receive weekly offer by e-mails from my favorite football team about ticket, from airlines and from job search sites. In this way I avoid being annoyed with ads concerning clothes, computer hardware and other products that I rarely buy.

Another point that is widely discussed is the ability to make use of services and software without paying for it simply by allowing advertising. One may think of the cable TV, which is a similar case. Cable TV was paid in order to avoid ads until a decade ago. Nowadays, it is paid for yet has come to have as many ads as any free TV channel. Thus, it is not the paying that is the key issue.

Like: 0

REPLY



**Le Déodic Marie-Laure** 2 May 2013 at 09:44 <#>

Do you see targeted advertising as an invasion of your privacy? If yes, do you already use (or intend to use) some ad-avoidance or do-not-track technology?

My point of view is that targeted advertising is not a big invasion of my privacy. I will explain this one. The first reason I think so is that the collect of all this information is made by computer program and so no people see that. Even if some people see that, they don't really know who I am. They don't know where I live and what my habits are. The only things they know are things which interest me, my research on the web and I have no trouble with that. I think it is the same phenomenon than the collect of information by the scanning in the shops.

The second reason is that I prefer to see advertising which interest me than ads that don't suit me. The thing I hate on the web is obtrusive advertising. For example, when you are on youtube, you want to watch a video and you have to wait because there is first an ad that you can't avoid. For this sort of ad I tried to use an ad-avoidance technology but for instance I didn't find an effective one.

On the other hand, the strange thing is that I like to watch ads on the TV even if the subject doesn't interest me because in this case I don't watch the product but the ad. For example, I will watch if it is funny as M&Ms ads or beautiful as ads for perfume. This is not the case on the web. I prefer to have ads on the side of the web page and no obtrusive ad. I think it is because on the TV I can't decide what there will be contrary to the web.

Then, I consider there is an invasion of my privacy when a web site ask me personal information as my home address, my phone number, my name,...



In contrast, do you consider it as something positive (as it increases the chance that you will be made aware of products that you like), or as a necessary evil ("I have to accept some invasion of my privacy to keep, e.g., Facebook free of charge")?

I don't consider it as positive because when I am looking for a product I will go on good webpage to compare prices and I will not click on the ad. It is for me a necessary evil and I understand that web sites like Facebook have to collect information about consumers and to sell it if they want to stay profitable. Indeed, we (the consumers) want to have all free, but in this case, companies have to find things to stay profitable and one way to do that is the collect of information.

We know that if companies have information they will increase their prices and decrease the surplus of consumers. I prefer companies do that and keep profitable because in this way they can increase their profits and ensure their life. I think we have to think further. In the companies there are employees which will maybe benefit of those profits. Companies would maybe engage more people which is a good thing for the all society. Furthermore, this increase of the price is not too much because you can compare prices on other web site and on consumer website.

Like:  0

REPLY



**Laurent Cochaux** 2 May 2013 at 09:41 <#>

First, here is my vision about targeted advertising. We all know that advertising is an inescapable consequence of our way to do business. If you want people buying your product, you need to make them know about your product. As you say, the advertising process has completely changes of form. Targeted advertising was known to be the next step. Via the informatics program, enterprises were able to reach a lot of consumers in the same time. The way I see targeted advertising is this: "years ago, when you went to a shop the owner was seeing you in front of him and through that relationship he knows things about you like: what do you usually eat, buy, ... and he may transmit those information to 2-3 others people in the shop. Nowadays, with the internet, the "owner" of the shop (online) knows exactly the same as in the past but he has an informatics program that save all your relevant information." So the situation has not really change, it's just modernized and it will evolve again. So for me it's a necessary evil.

Secondly, I think that those kinds of informatics program (used for targeted advertising but also to locate people) are an invasion of my privacy. The thing is that there is a trap. Indeed, as I said what you do online is quite the same as what you were doing outside in the real world. The trap is that you may think that you are alone in front of your computer but actually you aren't. A lot of people are watching what you post, do and a lot of people are saving information about you. When you did your shopping outside you gave information about you to maximum 5 people and you know it. Now, you give information to the entire online world and you have no control over the information you give. So yes, it's an invasion of my privacy because they save information about me without my agreement. Furthermore, it's why I installed "ad-block" that is an application that blocks all the "spam" advertising on my internet but still YouTube and Google knows my preferences for sure. The thing that's very annoying it's the fact that I don't know what they are doing with my information and I don't know what kind of information they save. The lack of control is what makes people the most scared about targeted information. How far can go targeted advertising in gathering our information? Because now with all the information we give, people with bad intention could follow us on Internet but also in real life. I don't feel comfortable about that. I wouldn't have any problem with target advertising if on each website I visit he'll inform me "we are keeping information about you about X, Y, Z aspect and we share it with X, Y, Z partner, do you agree with that or do you refuse?" Something like that should make me more relax.

Like:  0

REPLY



**Pauline de Grady** 2 May 2013 at 09:21 <#>

What do you think of targeted advertising ?

I do think that targeted advertising is an introduction in my privacy. Indeed, almost every firm now tries to get as much information as possible about their customers in order to better segment the market. This is what Delhaize does with its Plus-card. But one problem Delhaize faces is the fact that the costs of really making a personalized profile for each customer are higher that the profit made thanks to it. Delhaize then only segment the market into 2 big groups.

When the airline companies use the cookies to discriminate us with prices. I really think this is an abuse as it affects our surplus considerably. Evenmore, they do it behind our back, I think they should at least inform us of what they do with the information they collect about us.

And I don't consider receiving ads adapted to me as an advantage. On the contrary, I don't want to be influenced by ads so I prefer to receive random once that have less chances to affect me.

The only way I accept to receive ads is when it permits to have a free access to some technologies. That is how the model freemium of Spotify works. Customers that pay to have an access to Spotify Premium have access to musics of better quality, no ads and the mobile application of Spotify.

Like:  0

REPLY



**Pascaline Renard** 1 May 2013 at 21:53 <#>

Two points of views have to be distinguished in the targeting ads. As a consumer, I consider that some ads go too far in the using of my personal data, picked up from Facebook or others sources.

On the other hand, the data use like the Facebook case, are totally justified by the fact that I accepted its use terms. In the same way, those ads are sometimes useful and interesting because they often match with my researches on the web. Moreover, personal data use can seem to be intrusive for some customers. Indeed that kind of ads gives them the impression to be tracked and followed according to their preferences or their visits they do on different websites.

For the more informed people, some programs exist to block ads, but for the others, they have to stay with those that they consider as intrusive.

From a firms point of view, the logic is completely different because the purpose is to be known and especially according to the target segment. In this manner, allowing companies to be able to gather customers' data that they are interested permit them to have a higher ROI.

Targeting advertising is an increasing phenomena. So it is important that the government takes measures if it wants to limit or protect pieces of information of citizens. Indeed, more and more services propose their skills to target in an efficient way by regrouping the offline data and the potential online data. Moreover the article underlines that « Cette stratégie fait en sorte que vos clients et vos prospects reçoivent le message que vous souhaitez leur transmettre par le biais des médias qui les intéressent, quel que soit le canal. » (see :

<http://www.acxiom.fr/services-marketing/publicite-ciblee/>)

Like: 0

REPLY



**Paul Belleflamme** 2 May 2013 at 09:19 <#>

It would also be interesting to study the business model of the intermediaries that you mention.

REPLY



**Pablo Illán Tejedor** 1 May 2013 at 21:46 <#>

I think that the answer to the targeted advertising question might be controversial as someone said previously. Consumers may appreciate the easy appearance of ads related with their tastes and with activities they are interested in. But on the other hand they might not be willing to expose their personal information nor the websites they visit to random software in which they do not trust. So what are consumers willing to give up?

Personally I don't feel targeting ads as an invasion of my privacy. Until I am concerned, the software which tracks the website activity that I have it does not do it with spying objectives but with gathering aim to better adjust the ads which will appear to me in the future.

Nevertheless I hadn't heard about those methods like the do-not-track-program, and I guess that in case I felt invade I would use it without any doubt as they are against my wishes.

As a supporter of these targeted ads I assume that some information about me is compiled so I accept some invasion of my privacy; and so that consumers have personalized ads, having the choice of click in the ads you are interested or not click in. But I agree in the fact that if firms use this method to take advantage of it in a bad way such as putting higher prices and lowering our consumer surplus through the "surplus-extracting effect", it has to be persecuted more seriously as it only benefits firms and it harms the consumer.

Following with one of the examples you put, the Facebook one, I would like to mention that everybody who use it quite often is able to realize that they also use this targeted ads through the "like" system they have, as well as they have one section of "popularity" within your contacts knowing who are you talking to more often or the number of visits you do to the other or vice versa. In this case is still the software which gather this information but on the other hand each user is in charge of deciding how much he wants to protect his privacy in terms of photos, publications, etc. As many friends of mine who have already started to work and they do not want their bosses to find them in Facebook as they feel they have the right to separate private life from professional life and they change their surnames putting just their initials for example.

What I mean is that each unique person has the right to decide. If you don't like intrusions you can find the way to stop them, if you don't mind you just decide where to click whenever you see new ads. Each person carries his personal life as he wants. But always that firms respect the consumer's rights.

Like: 0

REPLY



**Marie-Clothilde Quarles** 1 May 2013 at 19:04 <#>



I clearly see targeted advertising as an invasion of my privacy. The main tool used to do targeted advertising is cookies. And this is precisely what I think can sometimes be scandalous. Indeed, the cookie is stored in the user's computer without his consent or knowledge. (source: <http://www.cookiecentral.com/ccstory/cc3.htm>) For instance, when you want to buy a plane ticket, it is normal that you compare the different prices on different websites and that you go several times on these websites before deciding yourself. What a lot of people do not know is that their passage on the website is registered and the prices are intentionally increased for consumers who are repeatedly on the site than for new ones. This is clearly an abuse which should not be authorized!

In your paper, you mention the fact that "on the one hand, targeted advertising may increase the relevance of the ads that consumers are exposed to, which is beneficial for them". I think this isn't true. Indeed, at first sight, this is what you might think but in reality these targeted advertisements create a new need for the consumer, it shows him something to buy that he would maybe never have thought of buying, something that is most of the time not necessary, superfluous.

Hopefully, today, consumers are more and more aware of this and several programs allow him to fight against it. For instance, Firefox gives tips to disable cookies (source: <http://support.mozilla.org/en-US/kb/enable-and-disable-cookies-website-preferences>).

Like:  0

REPLY



**Paul Belleflamme** 2 May 2013 at 09:15 <#>

Some websites also inform you that they use cookies and ask for your approval. I don't know whether it's on their own initiative or whether they respond to some regulation. Does anybody know?

REPLY



**Malgaud Quentin** 1 May 2013 at 18:35 <#>

Personally I use a plugin to block ads. This is just a question of visual comfort because before that I never bought anything from an online ad and I even never clic on any. But I think it is a necessary evil as it represents the great majority of revenues in the online industry. The reflexion is quite easy: I would never pay for online search, and even less for a social network. Would there be a way to make it without ads?

It is interesting to know that in the app market (being for Iphone or Android) advertising has such an important place that free apps earn more money -by far- to developers than paid apps (1). Therefore it is fair to assume that smartphones would be terribly less useful if apps where all paid: app market would earn less money to developers diminishing their incentive to innovate, smaller app choice would then decrease consumer's interest in smartphones as well as their incentive to pay, etc... This refers once again to a two-sided platform problem (2). The conclusion is not clear but it opens a question: Would smartphones even exist without targeted ad? The app example is not isolated: if Facebook could not have raise enough money, it could not ever have implemented photo sharing because of the price of the servers; and Google could not ever have launch satellites for their Google Earth software. The first conclusion is that ad is crucial for the internet as we know it.

But this is not enough, the thing is that online advertising is not a necessary evil for a static situation i.e. I prefer sharing my personal datas to get free access to an existing site like Facebook. It is the engine of the whole internet innovation. Therefore I would compare targeted advertising for the internet market to patents for the pharmaceutical industry. In this case, patents are computed to balance (through time and range) the incentive to innovate vs the social welfare, or in other words, dynamic vs static efficiency (3). But the main difference is that unlike patents, targeted advertising can not be balanced.

An hypothesis to enable to maintain the incentive to innovate(4) and increase the welfare would be to make the most famous sites public: make the government pay for it. It is a transposition of the generic drugs: generic websites.

If the government only pays for big sites, than datas will be much more rare. And there would be an inflation in price for it. Small websites would than have higher revenues than big ones and no incentive to grow, which finally diminishes the social welfare.

If the government pays for all sites, than this policy has to be worldwide (condition inherent to the internet), which is currently impossible.

Another hypothesis to control the utilization of the user's private life would be to legislate it this domain. For example IP tracking could be prohibited. But targeted advertising and datas collection moves to fast for laws: disruptive websites always have to find their own business model, they are the ones who carve the online advertising market.

This shows clearly that no credible alternative has been found yet.

As a final conclusion, targeted advertising is more than a necessary evil, it is the guarantee of the internet dynamic innovation movement. It is the worst revenue model for the internet, except all others (5).

notes:

1: <http://techcrunch.com/2012/08/26/how-free-apps-can-make-more-money-than-paid-apps/>

2: Paul Belleflamme and Martin Peitz, 2010. Industrial Organization: Markets and Strategies. Cambridge University Press. p610

2:Paul Belleflamme and Martin Peitz, 2010. Industrial Organization: Markets and Strategies. Cambridge University Press. p517

4: It would be more correct to write existence instead of incentive to innovate. But the assumption is made that web platforms innovate and evolve as long as they exist, and reversely exist as long as they innovate.

5: Winston Churchill originally about democracy.

Like:  0

REPLY



**Paul Belleflamme** 2 May 2013 at 09:12 <#>

Interesting thoughts!

REPLY



**Turneer Benjamin** 1 May 2013 at 18:03 <#>

According to me, targeted advertising are a good thing but only if they are not too intrusive. I would rather choose for fewer ads more targeted than a lot of ads less targeted. A mass of ads even if they are targeted bother me a lot and I think it is a common idea. Nevertheless I do not make anything to avoid this kind of trouble. And I also think it is common to a lot of people. That's why in my opinion firms should go on with targeted ads even disruptive one. Indeed even if it bothers the consumers they do not act to prevent themselves of this kind of trouble, therefore they are exposed to the ads and it can be positive for the firms. Since, according to some surveys, "behavioral targeting thus targeted ads lead to advertising rates that are more than double the rates that run of network advertising commands".

([http://www.networkadvertising.org/pdfs/Beales\\_NAI\\_Study.pdf](http://www.networkadvertising.org/pdfs/Beales_NAI_Study.pdf))

Nevertheless, a remark can be made : "Advertisers are seeking more and more to target their ads to the segments most likely to convert as a result of the advertising; however, this strategy may not be cost effective as this segment is likely to convert in the absence of any advertising". (<http://www2012.wwwconference.org/proceedings/proceedings/p111.pdf>)

But whatever which segment they choose "Targeting also improves the effectiveness of advertising. By reducing the wastage created by sending advertising to consumers who are unlikely to buy, we might expect improved targeting to lead to lower advertising expenditures" ([http://faculty.haas.berkeley.edu/giyer/index\\_files/tgtadv.pdf](http://faculty.haas.berkeley.edu/giyer/index_files/tgtadv.pdf))

To answer to the second question, I would say that target ads have indeed a positive effect but a small one. Indeed "targeted advertising is significantly more valuable to consumers, because it is more likely to tell them about a product they want to buy".

([http://www.networkadvertising.org/pdfs/Beales\\_NAI\\_Study.pdf](http://www.networkadvertising.org/pdfs/Beales_NAI_Study.pdf))

In my opinion, ads are a necessary evil. As a user of facebook and other social media, it is a good thing that they are free of charges. Indeed if they were not, a large amount of people would not use them.

Like:  0

REPLY



**Paul Belleflamme** 2 May 2013 at 09:09 <#>

Thanks for this comment. So far, we had all taken the effectiveness of targeted advertising for granted. This would probably deserve a separate post (When and how is targeted advertising profitable for firms? How can we measure this profitability?).

REPLY



**Andres Chamba** 1 May 2013 at 17:54 <#>

There are benefits and disadvantages regarding targeted advertisement. Targeted advertising, of course, is not a new practice and in major industries it has been practiced extensively. However, with the advent of new technologies, namely internet based software, targeted advertisement has never been so effective, and possibly intrusive to costumers.

Some of the benefits of targeted advertisement are straight forward. Obtaining specific information and behavior of internet users increase efficiency by matching products or services to users. Firms benefit largely as well. They will increase their sales and their margin of profits. They know -with a high degree of confidence, the customer.

In a two sided platform or multi-sided platforms, the intermediate or platform profits from "cross side" exchange of information. Most of the time, customer or clients benefit from subsidies given by the platform to use its services. Platforms, of course, compensate those subsidies by charging the "money side" (read: advertisers). In order to access free or close-to-zero prices, costumers benefit of the use of platforms and advertisers increase their sales. This works in apparent perfect harmony where a symbiotic market provides benefits for all.

Nevertheless, there are disadvantages, especially for the consumer. For instance, advertisers with information available will gain market power and will obtain the consumer surplus behaving as cuasi-monopolists. Though, the most striking feature of obtaining web user's information is doing it without the consent of the user.

People get annoyed by advertising. And they have always been annoyed. Since the invention of television in the 1920's, people have been

getting free broadcasting, funded by advertiser that pays the channels. Less annoying are billboards on the side of streets or roads. All in all, for consumers to use platforms for free there should always be a "money side". And customers understand this in a subtle way. Nevertheless, for advertisers to access personal information, there should be policies in place to protect private information that is acquired without customer's permission. The latter should be reinforced or be made explicit, especially if that information is to be shared amongst advertisers for a profit.

Reference: EVANS, D. (2011), Platform Economics: Essays on Multi-sided Business. Competition Policy international

Like:  0

REPLY



**Paul Belleflamme** 2 May 2013 at 09:06 <#>

There seems to be an agreement, across your comments, that annoying ads are a necessary evil: the logical consequence of free content.

REPLY



**Lucia Caballero** 1 May 2013 at 17:53 <#>

I personally see targeted advertising as something positive. Years ago when this type of advertising did not exist you were entering sites with tens of ads completely irrelevant to your likes. At least nowadays targeted advertising gives the chance that commonly known as "annoying ads" could be actually useful and interesting for the user.

It is true as said in the post that this type of advertising gives the companies the possibility of extracting information from customers what derives in price discrimination which is a way of reducing consumer surplus by charging each consumer the highest price they are willing to pay. But is this really unfair for us, internet users and potential clients? I think the answer is not. After searching for some opinions I have come with an interesting one: "If you ask an Internet ad guy to defend himself—to explain why you, dear Web surfer, should feel comfortable letting him serve you ads based on everything you do online—you'll likely hear two arguments. First, he'll tell you that targeted ads are simply the cost of doing business on the Web. It takes billions to build and maintain sites like Google and Facebook, and you don't pay a dime to use them. Parting with some of your private information—and agreeing to tolerate, if not always click on, some ads—is your end of the bargain." From the e-commerce blog <http://www.saleswarp.com/blog/>. So we are using a service completely indispensable for us without paying for it but we can not forget that Google, YouTube, Yahoo, Facebook and all the other sites we often use have to be paid by someone in order to exist.

Companies finance these sites through the e-marketing so we have to accept this possible invasion to our privacy which I think is not a high price taking into account all the services we enjoy online.

Finally to conclude with my support to targeted advertising just mention the possibility also written in the blog, of avoiding advertising options. Although these type of ads could be in some way useful for us and even though we are not paying when using expensive platforms we still can find tools to eliminate them from our common sites and mails. In conclusion targeted advertising is not that obtrusive and annoying after thinking about the reward we have from them.

Like:  0

REPLY



**An Vu Pham** 1 May 2013 at 17:20 <#>

In the following lines, I would like to offer my point of view about targeted advertising.

As a consumer, I have mixed feelings about online ads. I have no problem with the ads that are shown in a corner of the webpage or at the end of an article but what really bothers me are ads that appear in full screen or pop-ups. That's why I use a well-known ad-avoidance: Adblock. By this way, I can browse the web without being disturbed by any ads. We also have to remember that some websites have to use ads to fund the payment of the servers so if we want them to continue to provide us a good service, we might have to accept some ads.

As for targeted advertising, I understand that some people find it disturbing because of the privacy but personally, I don't see much differences between targeted ads and random ads. Sometimes, targeted ads can be even more interesting because it's about the same subject than the website you are currently viewing or if they use personal data, there is a chance that the ad is about something you are interested in. We can see in that article that actually, lots of people prefer the ads to be 'tailored to their interest'. (<http://www.adweek.com/news/technology/poll-targeted-advertising-not-bogeyman-updated-148649>)

For social networks, like Facebook, it is part of the principle to let some personal data available, even though you can limit the access to your informations. If you are using Facebook, it means that somehow you want to share information about yourself while for targeted ads, it's the companies that are trying to reach you with your personal data without your approval.

On a company point of view, it is really interesting to have targeted advertising as explained in the article, it has become almost a necessity. As we have seen in our e-marketing class, it allows them to reach the targeted customers more easily and thus, saving some costs about

collecting information. It also helpful for the pricing strategy of companies. By knowing the habits of the consumers, it allows companies to set the price in a way that will be profitable for them.

As conclusion, I don't think that targeted ad in itself is a concern. It's better to have targeted ads than random ads because the products may interest you. The main concern (beside the intrusive nature of those ads) is how those companies are collecting personal data without the consent of the customer. Furthermore, it has become a necessity on a company point of view. So targeted ads can be positive for both the companies and the customers.

Like:  0

REPLY



**Paul Belleflamme** 2 May 2013 at 09:01 <#>

"As for targeted advertising, I understand that some people find it disturbing because of the privacy but personally, I don't see much differences between targeted ads and random ads." Good point!

REPLY



**Gonzalez Diego** 1 May 2013 at 14:20 <#>

I would like to start my comment with one of the last example of how the user's activities on the internet are used.

YouAreWhatYouLike.com is a one-click personality test, developed by David Stillwell of Nottingham University and Michal Kosinski of Cambridge University in the UK. The website will describe your personality given the data it has collected from your likes on Facebook. The idea is that people with different personalities like different things. Targeted ads work the same way. (1) They collect information about your internet experience and adapt advertisings according to your preferences.

Studies show that consumers understand and mostly accept the tradeoff of having access to online content in return for being exposed to advertising. With the exception of ads that are invasive, consumers have largely come to accept advertising as of online life. Moreover, when these ads are relevant (highly targeted and engaging), they become valued to consumers. (2) Furthermore, according to the 2012 Digital Advertising Attitudes Report, 20% of US consumers would stop using a company's products or services entirely as a result of receiving too many advertising messages, while 28% would be less likely to respond positively to that company in the future. (3)

These studies are thus in favor of targeted advertising for two reasons. First, people don't like to receive too many ads BUT they are willing to accept it in order to avoid paying for the content. Additionally, ads become valuable for the consumers when they are relevant. That's why targeted advertising seems to be the solution.

I would like now to continue my comment about the fact that most of people are not properly trained to use the Internet. Indeed, solutions against advertisings are multiple. The best known is surely Adblockplus.com. Here is some of his features:

- Adblock Plus blocks all annoying ads on the web by default: video ads on YouTube, Facebook ads, flashy banners, pop-ups, pop-unders and much more.

- With every browsing session, there are multiple firms tracking your online activity and browsing history. There are hundreds of ad agencies tracking your every move, but with Adblock Plus you can easily disable all tracking, and browse the web truly anonymously. And there are much more.

To finish, I want to talk about alternatives of targeted advertising. Most of the time, targeted advertisings use the information of the user without letting him knows. They are other solutions in order to know what the consumer likes. Stumbleupon.com is one of these. (4) So, how does it work? Well, it's pretty easy. Like they say on the front page, "You tell us your interests. We recommend you great websites, photos and videos, simple." Indeed, the website makes you visit the Internet in function of your interests, and let you rate every websites. They adjust your profile in consequence.

The huge difference with targeted advertising is that consumers make their own profile in full knowledge of the facts.

They are pretty more websites like that:

- Delicious
- Pinterest
- Tumblr

(1) <http://onsoftware.en.softonic.com/test-your-personality-based-on-facebook-likes>

(2) <http://www.realtimeadvertisingweek.com/2010/09/how-consumers-react-to-different-kinds-of-ads-on-their-online-travels.html>

(3) <http://www.cmswire.com/cms/customer-experience/too-much-online-advertising-may-turn-consumers-off-survey-finds-014707.php>

(4) <http://www.stumbleupon.com/>

Like:  0

REPLY



**Paul Belleflamme** 2 May 2013 at 08:58 <#>

Well documented and very instructive comment. Thanks. The crowdsourcing goes on!

REPLY



**Vianney Picavet** 1 May 2013 at 04:52 <#>

I think there are two distinctive annoyances surrounding the advertising in the web, for the user. The first one is concerning the personal data collection. People tend to be kind of paranoid when it is about giving personal data without their knowledge to companies they are not even aware of, and at purposes they do not always know. The second inconvenience comes from the obtrusiveness of the advertisements and the lack of comfort they provide to the internet users. This affects negatively the visual effect of web pages as well.

Ad-avoidance and do-not-track technology came to offer people the possibility to avoid these discomforts while they are surfing the web. I personally do use an ad-blocker which fulfills these two objectives. I am aware that my decision is harmful to the Internet business, but I am even less tolerant to the number of advertising I get on my screen. I am personally much more sensitive to the visual annoyance rather than the personal data collection. As the data collecting is, in my opinion, quite inoffensive, I only block ads to avoid their obtrusiveness on my screen.

The problem of ad-blocking is that it offers the users the possibility to be selfish and to get individually rid of advertising. I know that advertising is a necessary evil to get some free services, but thanks to this software I can get rid of this annoyance without losing my free access to websites and, thus, still getting the same advantages as others. The problem is that if everybody acts as I do, free websites will not be able to get revenue and the whole economic basis of Internet business will be shaken.

Anyway, I think, as long as it is not a well expanded habit, that the availability to block advertising should be a right to the users. It is yet more problematic when this possibility becomes a choice by default. This reminds me of the Free case, when, in the beginning of this year, the French operator blocked the access to advertising to its users by default. Free users got advantage of getting free access to the free web without advertising, to the detriment of non-Free users. This very controversy decision could have brought harmful consequences to webmasters of free websites if Free did not decide to reconsider its position: advertising is now allowed back. Anyway, this proves that ad-blocking should remain embraced by a minority of users for fear of affecting too much the webmaster's revenue.

Last thing I would like to point out about the noxiousness of ad-blockers is that it also affects the revenue of websites proposing premium access with, among other characteristics, removal of all the advertisement. This kind of software brings the Internet users to become non sensitive to that type of benefit, as it can be done for free.

Therefore, a solution could be to let users feel that using ad-blockers would prevent them to receive useful information. About the two annoyances I wrote initially, I think that they can be reduced.

For instance, targeted advertising is getting more and more accurate through the years and it could eventually be interesting for the users to get access to it. I personally think that, if I appear to receive more and more interesting ads, I would eventually deplore the fact of blocking access to advertising that could help me, and thus I would allow them to emerge on my screen. And, regarding to the hypothesis that "improved information accuracy may lead consumers to receive ads that they prefer less than those that they receive when targeting is less precise" (Justin P. Johnson, complete reference on the article above), it may be sometimes interesting for the web users to receive random advertising on their screen in a relative proportion, for example.

And as for the visual annoyance for users, I personally believe that, over the next years, the number of annoying ads will widely decrease. I mean that advertising I consider as harmful, those that are too much colorful and flashy, with too much motion, with unpleasant sounds activated by default, with fake promises of gifts, too obtrusive, and so on, will soon be less present in the benefit of ads more visually attractive, less unpleasant to look at, etc.

I think first that this kind of noxious ads is not the one that people are interested of anymore. They are more attracted by ads more respectful to them, which means less intrusive, more directed to their interests, mingled with the design of the website, possibly with smooth movements or effects to get their attention, but not too much so that they cannot be disturbed by them. The PPC should be higher for this type of advertisement too, so companies should be encouraged to pursue this way. Finally, in order to foster non-annoying ads, ad-avoidance softwares as Adblock now identify acceptable ads, which mean "plain and unobtrusive advertising instead of flashy banners" (<http://adblockplus.org/en/features>). As they are now allowed by this software, this kind of ads can be promoted, accepted by web users, and webmasters can still get money from their website.

Like: 0

REPLY



**Paul Belleflamme** 1 May 2013 at 09:59 <#>

I appreciate your concern about your own ad-avoiding behavior causing a negative externality on other users as it might jeopardize the financing through advertising of free services on the Internet. But it is not necessarily so, as Joshua Gans tries to explain it in his blog entry (see link in the post): *"Who are the people spending money and time avoiding ads? Remember, ads interlaced with TV programs are designed to slip into the attention of the mesmerised but otherwise inactive viewer. So the people who are actively trying to avoid ads really hate them. Now, if you are an advertiser, do you really want to know that your content provider is doing everything possible to keep those most annoyed consumers? It would not be a stretch to suppose that consumers who get annoyed by ads don't exactly get positively*

*influenced by them. So if networks embraced ad-skipping and perhaps got from providers like the Dish network some real statistics on the numbers of consumers who actually viewed the ads, then they could tell advertisers that their metrics comprised viewers who had the option of skipping over ads but did not. Surely, that is a more valuable product to advertisers."*

REPLY



**Marielle Uylenbroeck** 30 April 2013 at 21:42 #

As a consumer, I have always seen targeted advertising as an invasion of my privacy. Indeed, I have used ad-avoidance for a long time. (see <https://chrome.google.com/webstore/detail/adblock/gighmmpiobklfepjocnamgkkbiglidom?hl=fr>) In this way, I am not annoyed anymore by intrusive advertising. I feel myself safer. However, we have to accept a part of invasion as it is the case with Facebook even if we can limit the access to our private data. The main difference with targeting advertising based on the behaviour online: I think it is a choice of the users to give data, they are not obliged to be on Facebook and here is the key point.

But now I am used to consider the companies side thanks to my studies, especially for this case, thanks to my e-marketing course. So I perfectly understand the reason why companies have to target consumers. In my opinion, the most important is to increase the total welfare of the market. But how can we do that as a company? A solution is given in this article: The Targeting of Advertising (<http://groups.haas.berkeley.edu/marketing/papers/villas/ms05.pdf>)

"This paper provides a logic for why firms in competitive markets should target more advertising to consumers who have a distinct preference for their products. When firms reduce advertising to price-elastic consumers who comparison shop, they endogenously create additional market differentiation, which reduces the intensity of competition. The targeting of advertising also provides firms with the direct benefit of eliminating wasted advertising to consumers who have a distinct preference for the competing product. For these reasons, the ability to target advertising increases the equilibrium profits of firms."

Moreover, it is said that: "Targeting allows a firm to send advertising to consumers who really like its products and this has minimal competitive implications."

In conclusion, targeting for companies is become a necessity and according to me, if consumers feel the targeting advertising intrusive, they have to use the solutions that are available to avoid it.

Like: 0

REPLY



**Paul Belleflamme** 1 May 2013 at 09:50 #

Thanks for the reference; I didn't know this paper. I think I should include it in my course next year. I should also coordinate better with the e-marketing course.

REPLY



**Naert Sophie** 29 April 2013 at 16:05 #

I think targeted advertising has pros and cons.

On one hand, I see targeted advertising as an invasion of my privacy. When I surf on the Internet, I see a lot of ads for the same thing everywhere, it is a bit obtrusive.

But now that I have a lecture about e-marketing I understand that it is normal for firms to use targeted advertising. In the current competition situation, firms need to differentiate themselves and find a way to reach consumers and increase their sales and margins. By using targeted ad firms increase their chances that the right person sees the right ad at the right time.

On the other hand, I didn't know that we have the possibility to stop ad with some ad-avoidance or do-not-track technology. In this case, I think that targeted ad is not really an invasion of private life because we can choose if we want to see them or not. As far as I'm concerned, I will find out about these do-not-track technologies but I am not sure that I will use it because I am often pleased to see ads for products/services that I like.

Moreover, I sometimes consider it as something positive, something useful. For example, I would like to go on holiday this summer and I'm looking for the cheapest flight. Since I have gone on a website, I receive lots of information concerning the flight. Eventually, I found one website that I didn't know which interesting trips were offered in. In this example, targeted ads are useful and help me to spare money. Furthermore, I prefer to see an ad that interest me rather than see a product that I am not interested at all.

To sum up, I think targeted ads are often useful and are not an invasion of privacy. However, when they are numerous and appear on all sites where we surf, they become annoying and obtrusive.

Like: 0

REPLY





**Paul Belleflamme** 1 May 2013 at 09:46 <#>

If I understand your viewpoint correctly, advertising is useful (and welcome) as long as it is informative; but when it becomes persuasive, you start to feel annoyed.

REPLY



**Goudeseune Claire** 29 April 2013 at 14:16 <#>

I don't mind targeted advertising. Indeed, I don't pay attention to the advertising, by instance, on facebook. It is really uncommon when I click on an ad. But I prefer to have some advertising that can interest me rather than a random ad. Nobody has the same interest and so, why not find easier something for which I can have interest. But it is the choice of everybody to indicate, by instance on his facebook profile, all of his interests. I use Facebook extremely carefully because I don't want that strangers know everything about me.

But it is clear that it is more than just about information that you give. When you click on a webpage, "they" can know and make the link with other interest... It is "the big brother". They know everything about us, and with the current technology, it is (almost) impossible to hide something.

My opinion is so shared. For "small" information like my hobbies, I don't care but for other more important information, I would prefer that nobody can see on which webpage I surf. I don't know if it is a necessary evil; it is an evil that we can't fight because of its invasion too high.

There exists some architecture, like "Adnostic" (<http://crypto.stanford.edu/adnostic/>) that enables targeting without compromising user privacy. This architecture is designed to provide specific privacy guarantees. It will be a solution to avoid that your personal information is available for everyone. But for the "middle" individuals who don't understand the reach of sharing her information, I am not sure that they will understand the utility of this type of architecture...

Because you are alone in front of your computer, you think that what you do is confidential, but there is always someone or something (like software) in the world who/that knows what you look... And I don't know if it is possible to avoid that... because of internet, loyalty card, etc.

Like: 0

REPLY



**Avaux Fanny** 28 April 2013 at 10:39 <#>

Targeted ads don't bother me. Often, I don't even see them and when I see an ad that interests me, I like to click on if I have time. Consequently, most of the time, I consider targeted ads as something positive. A survey in an article of Tucker and Goldfarb about online display advertising confirms that "there is a relatively high consumer tolerance to targeted ads because the information is perceived as useful" (p. 390).

On the other side, as explained by Justin P. Johnson, "improved information accuracy may lead consumers to receive ads that they prefer less than those that they receive when targeting is less precise". As an example, I have recently make research on Do-It-Yourself (DIY) tools on the internet for a work and all targeted ads were about DIY tools whereas it didn't interest me at all. At this time, I realized that everything I do on the internet is tracked. I don't think that is an invasion of my privacy because ads aren't on 'real' privacy topics like health of financial situation. Indeed, "customer appreciation of the informativeness of targeted ads is tempered by privacy concerns" (Tucker and Goldfarb, p.390). I really understand that receive ad about Alzheimer when you have Alzheimer's disease is perceived as an invasion of privacy.

Targeted ads are also very annoying when they are a lot or obtrusive (high visibility). Indeed "this tolerance [for targeted ad] may be overwhelmed by perceptions of manipulation when the ad is obtrusive" (Tucker and Goldfarb, p.390). I have installed Adblock on my computer but I use it only when there is too many ads or when they are obtrusive.

TUCKER, C. & GOLDFARB, A., (2011), "Online display advertising: targeting and obtrusiveness", in Marketing Sciences, 30(3), pp. 389-404.

Like: 0

REPLY



**Paul Belleflamme** 29 April 2013 at 09:16 <#>

Food for thought: If I have some disease and I receive ads related to that disease, who else knows of my condition than myself and a machine (server and targeted advertising software)? Is there really an invasion in my privacy?

REPLY



**Loïc Esselen** 27 April 2013 at 22:08 <#>

Nowadays, it seems to be logical that companies use targeted advertising. Given the price of e-marketing, they have to focus on

public which will be motivated to buy their products or services.

In my opinion, I do not think that targeted advertising is an intrusion in my privacy. In contrast, I think that it's a good point! I feel it boring when I receive advertisement for products that I do not care. Moreover, I rarely click on ads which appears on Google or Facebook. For me, these ads are just there to remind the product but not the brand. For example, if I see an ad of Adidas football shoes on Facebook, I will not click on but I will go on Nike website to see the Nike's novelty because I prefer Nike.

Concerning the privacy, I do not see why these ads are an intrusion in your life. It's also a good point for the consumer to receive ads which interest him! Furthermore, these ads can also become useful. Indeed, it become more and more precise about your demand and that is a good point. For example, I searched a fly ticket for my Erasmus but I did not find anything on the site on which I surfed. But 2 days later, I receive an ad for another site that I did not know and I found on this site the ticket that I searched for the price that I wanted.

To resume, I think that targeted ads are more an advantage than an inconvenient, and can even be useful. But of course, it should stay in a reasonable amount (not an ad on each website that you check). The use of your historic is not really an intrusion in your privacy in my opinion. Finally, I think that the best solution is to leave at the consumer the opportunity to easily accept or not the tracking, as Yahoo does now : <http://www.linformaticien.com/actualites/direct-afp/id/24265/yahoo-met-en-place-un-systeme-pour-refuser-ou-choisir-sa-publicite.aspx>

Strangely, I did not find any forum or articles who gives positive argument for the consumer but I stay on my position : it is not a intrusion in your privacy, it can also be useful.

Like:  0

REPLY



**Paul Belleflamme** 29 April 2013 at 09:12 <#>

Well articulated, and perfectly respectable, opinion. Excellent for the debate that we have!

REPLY



**Xavier (3926-11-00)** 27 April 2013 at 14:31 <#>

"Do we see targeted advertising as an invasion of our privacy?"

That's an interesting question while I personally always try to protect my privacy the more I can, especially on the web (even if I am not fully aware of all the tracking tools websites are using in order to gather details about ourselves). That implies giving the less information about myself on websites in order not being tracked (neither having targeted advertising). Does it work? Not sure.

I am not yet using ad-avoidance neither do-not-track technology. However, I sometimes do use a Proxy serveur in order to access some territorially limited websites. This usage of proxy servers makes tracking technologies outdated while most of the time, these tools primarily uses geographic location to target us.

However, the usage of proxy serveurs is useless in the case of websites using data mining such as Facebook or Amazon. That's why Facebook is so dangerous from my point of view. Facebook is gathering very personal details about yourself, your friends and your habits since your arrival on Facebook. The arrival of the Facebook Graph Search will even increase the possibilities of being targeted by advertisers on Facebook (see also. <http://www.csoonline.com/article/727502/facebook-s-graph-search-worries-security-experts>).

I have privacy concerns with this tool while -in my opinion- this tool is way too intrusive.

This article from ThechCrunch is pretty interesting (<http://techcrunch.com/2011/11/28/europeancommissionfacebook/>) while it seems that "the European Commission is going after web companies over their failures to explain how their ad targeting systems work". It's pretty much about Facebook (see also.: <http://www.insidefacebook.com/2011/10/04/cookies/>).

Other citizens feel very concerned about data protection and targeted advertising.

I would personally be keen to leave Facebook the sooner I can. However, as student, it's almost impossible to get out of it while everything is gathered there (pictures, messages, friends, events to come, groups for university teamwork, etc.).

That being said, from a commercial point of view, targeted advertising can be something very positive (increasing the conversion rate for example) and I guess we will all have to proceed so in our respective jobs in the coming years, after graduating. Targeted advertising is not necessarily a bad thing while, in my opinion, it can increase both the satisfaction of sellers and buyers.

However, it's more about the way you are doing business that matters; about the usage you have of the data collected, about how intrusive you are in your buyer's life. It's more about your own ethic while doing business.

Like:  0

REPLY



**Paul Belleflamme** 29 April 2013 at 09:10 <#>

You write: "I would personally be keen to leave Facebook the sooner I can. However, as student, it's almost impossible to get

out of it while everything is gathered there (pictures, messages, friends, events to come, groups for university teamwork, etc.)." This is a perfect illustration of "collective switching costs": switching individually is very costly because you run the risk of losing all network benefits; switching collectively would reduce this cost but transaction (coordination) costs are likely to be high.

REPLY



**Georgin Maxime** 26 April 2013 at 16:35 <#>

As a heavy user of free – in terms of money – services on the internet, I find normal that providers want me to pay something in an other way, e.g. by taking my time or tracking informations about me.

However, as there exists some ad-blockers or DoNotTrackMe free programs, I also find normal that I use it. Even if I don't think it's an invasion of my privacy, I prefer not having ads, even if well targeted, or trackers which will lead to price discrimination, against my interest. By the way, I directly installed the do-not-track program you gave in your post as an example. Thank you for this, I noticed google was tracking me through ipdigit and on other articles about internet tracking...

It is rationale for companies to try to increase profits by catching information about customer, while staying in legality about privacy – and I don't think that is against the law – but it is also rationale for customer to try to pay as less as possible – in money, time or information – if they don't have to. There is then an equilibrium between people who prefer to see the ads, give information or take time to find a way to block information tracking and ads.

However, I think most people see tracking as a necessary step to get free access to services or would prefer to pay to get rid of ads and tracking, which already exist in most mobile applications through premium versions. Thanks to the future comments of other students, we will have a sample of what economics students think.

Furthermore, when I see the efforts made by a large number of people to counter the information sharing, I think it could be a gap that could be used by companies with a new business model, taking advantage of the behavior of these people. The hardest thing is to identify a doable business model filling this gap.

Like: 0

REPLY



**Paul Belleflamme** 29 April 2013 at 09:06 <#>

Making people pay for getting rid of ads, or of intrusive messages, is a versioning tactic that software manufacturers have been using for a long time. It is sometimes called 'nagware': there is a free version that nags you with, typically, reminders that you can upgrade to a paying version (where of course the nagging factors will be taken off).

REPLY



**Goergen Stephanie** 26 April 2013 at 14:52 <#>

Targeted advertising or behavioural advertising has clearly its pros and cons.

On the one hand, consumers are only receiving ads which are relevant, meaningful, informative or particularly interesting and they don't have to waste time on irrelevant ads. This is made possible by the advertising intermediary which is using methods to determine whether a particular individual who is browsing a website at a particular moment has exhibited the web browsing behaviours and personal characteristics that make that person a good target for an ad. Moreover, since online advertising has become a significant source of revenue for web-based businesses, it increases the supply of online content. This enables you to gain access to a wider range of relevant information. In this context, targeted advertising is some sort of necessary evil: It is the price you have to bear for the services which are provided to you over the internet. In other words, there is nothing free on the internet.

The downside is that targeted advertising can result in wrong profiling of people. In this context, a Harvard University professor found 'significant discrimination' after comparing the adverts which appear when searching a typically black name compared with those for typically white names (<http://www.dailymail.co.uk/sciencetech/article-2273741/Google-accused-racism-black-names-25-likely-bring-adverts-criminal-records-checks.html>, [http://www.huffingtonpost.com/2013/02/05/online-racial-profiling\\_n\\_2622556.html](http://www.huffingtonpost.com/2013/02/05/online-racial-profiling_n_2622556.html)).

Moreover, it raises the issue about keeping track of your interest in medical subjects and filling your browser with ads for helpful products from pharmaceutical companies. This question is tackled by the Network Advertising Initiative which is a trade group representing two dozen companies including Google, Yahoo, Microsoft and AOL. In 2008, it proposed guidelines which identify sensitive subjects that advertising companies should not keep track of. (<http://bits.blogs.nytimes.com/2008/04/10/ad-industry-bans-targeting-people-with-cancer-ads-to-dead-people-allowed/>, <http://bits.blogs.nytimes.com/2008/12/17/your-privacy-is-protected-only-if-you-are-really-sick/>)

Another issue of targeted advertising is the scanning and recording of the content of emails (as does Google Gmail) which I think is clearly an intrusion in our privacy. An email is supposed to be something private and should not be used for commercial purposes. (<http://www.dailymail.co.uk/sciencetech/article-2275739/Microsoft-lays-Google-invading-Gmail-users-privacy-scanning-contents-emails-target-personalised-adverts.html>).

Targeted advertising should be limited to free accessible web pages, i.e. pages which are not locked with a password. If you create an account on a page, you want that your personal information is treated privately and you don't want that companies get access to it in any

way.

Another interesting post on this subject: <http://blog.mainstreethost.com/what-advertising-is-what-advertising-isnt-and-what-it-may-be>

Like:  0

REPLY



**Paul Belleflamme** 29 April 2013 at 09:02 <#>

Very instructive, thanks! This exercise looks increasingly like crowdsourcing: I write a basic article and you guys complete it with dozens of useful references.

REPLY

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