

# MARKETING *Benchmarks*

## 7 reasons large companies do not advertise online

Leading companies can make horrific mistakes (look at what happened to one-time Wall Street high-flier Bear Sterns) but, most often, they bet right. So a new McKinsey & Company study of why top businesses are not advertising in cyberspace deserves your consideration – especially if you have been bemused by hoopla about Internet marketing.

The McKinsey study goes a long way toward explaining a paradox:

- Most potential U.S. customers today use the Web for product research before they make major purchases.

The Internet soaks up 30% of all their media exposure. Only television, according to Credit Suisse, now commands more U.S. media time than online – and TV will trail the Web by 2011.

- Marketers, however, allocate only 7.5% of their budgets to the Internet.

McKinsey asked 410 marketing executives in the retail, telecommunications, technology, business-services, and energy industries to identify the primary stumbling blocks that deter their companies from investing, or investing more, in online advertising. Their answers:

- 59% reported that they lacked in-house and outside-agency capabilities necessary to generate profitable Internet advertising
- 52% said that the Internet does not offer metrics sufficient to measure advertising impact accurately
- 33% cited top-management skepticism about the effectiveness of Web advertising
- 24% complained that so far digital advertising tools are limited in usefulness

Steve Latham, founder and CEO of Houston,

Texas's Spur Digital company, president of the Houston Interactive Marketing Association, and a director of the American Advertising Federation's Houston chapter, comments:

“Online marketing is still relatively new, somewhat complex, and changing rapidly. Most companies are still trying to make sense of new media ... The tight supply of talent is also a problem.”

The second-leading hurdle (insufficient metrics), he writes, stems from translating Internet clicks and page views to revenue and profit numbers a Chief Financial Officer will understand.

“The economics of online marketing are still challenging ... which leads to the #3 barrier, ... the ability to convince upper management. Only a small subset of marketers can develop a compelling business case ... to convince upper management to invest in a medium they don't fully understand.”

“The McKinsey study doesn't tell the whole story,” Latham adds. From his company's experience with dozens of major businesses, “We have found several other lesser-known reasons that prevent companies from investing online,” including

- The “misperception” that online marketing only makes sense for companies that sell through E-Commerce.
- Reluctance of some marketing people “more concerned about rocking the boat or putting themselves at risk than ... great results.”
- The need to change business procedures to accommodate the demands of online marketing.



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*The number of adults who bought onlinedropped from 112 million in 2004 to 107.4 million in 2005.*  
— Nielsen

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