All Consuming Behavior
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The Great Portal Payoff

Advertising click-through rates have plunged below 1 percent on Internet portals. That means marketers must banish the banner, and brandish the brand.

In the early days of the World Wide Web, e-commerce was the bull's-eye, and portals were the arrows to it. Gateway sites such as Yahoo, AltaVista, Excite, and Lycos were, it was thought, natural and enduring stopovers for people desperate for guidance through the vast, confusing byways of the Internet. The promise of click-through riches led venture capitalists to flood portals with cash, and prompted marketers at such companies as drkoop.com Inc. and Barnes & Noble Inc. to sign lofty deals to get their banner ads on the sites.

Like much early e-business theory, portal power crumpled from the relentless blows of economic reality. Abysmal click-through rates signaled that portals were failing to deliver on their promise of direct-marketing riches. Between October 1999 and October 2000, click-through rates fell more than 40 percent, with only 0.1 to 0.2 percent of page visitors clicking on banner ads at top portal sites. Dying dot-coms vanished as a source of advertising dollars. Portals lost their luster — and their elevated valuations — as marketers and investors rethought their Web strategies.

"The advertising community has lost faith in the Internet and specifically in portals," Michael D. Eisner said last January when Disney Enterprises Inc. announced plans to shut down its portal, Go.com. Even mighty Yahoo Inc. fell prey in March, with investors driving its stock price down almost 20 percent after a slowdown in Internet advertising caused it to miss analysts' first-quarter revenue forecasts by up to $63 million. At the same time, CEO Timothy Koogle decided to step down. This has given rise to today's conventional wisdom that portals have little place in consumer marketing plans.

But they should. Our analysis of clickstream data from Nielsen//NetRatings Inc., the leading provider of information about Internet users, proves that portals are no longer waystations, but destinations — centers of content and commerce that draw audiences in the same way that large-circulation magazines and successful TV networks do. In fact, our analysis suggests that the one-time gateways are a potentially powerful marketing medium, but only if consumer marketers dramatically change the way they use them.

The message is simple and low-tech: It's time to banish the banner

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and brandish the brand. That means applying proven brand-building techniques that will work as well on the Web as they have in traditional media.

Business Model 1.0

Defining a portal is harder than it seems. In the Internet's early days, "portal" was synonymous with "home page"; later, portals became equated with search engines. To this day, all brand-name portals are based on search engines or directories, but their appeal and services vary. AOL is considered a portal, yet its popularity derives in no small part from its proprietary online communities. Disney's Go.com had, befitting its parentage, an entertainment flavor. Google and HotBot remain true to their search heritage. Despite these variations, portals are perceived as — and have considered themselves to be — the hubs in a vast hub-and-spoke system, a place where people come to stop, ask directions, and then leave.

Whatever their particular specialty, most portals built their businesses on the foundation of banner advertising, which nicely met the matching needs of marketers and portals. The sites had an audience seeking information; they also had the ability to identify consumers by interest and, to a degree, by demographics. Through banners, portals could deliver audiences directly to marketers' Web sites, in a way no other medium could match. They were a perfect solution for marketers needing a way to cut through the sprawl and confusion of the Internet to reach audiences receptive to their offerings. The search function and portal revenues were linked with each other. A consumer looking for guidance about financial-services sites was, marketers assumed, a perfect target for a credit card banner ad. If a banner seemed too blatant, then paid, prime positioning on a search engine's results list — the portal equivalent of product placement — was deemed a more subtle way to drive traffic to a marketer's site.

The revenue model that evolved from these assumptions was a hybrid of broadcast television and direct marketing models. Like free TV, portals were paid by marketers — not by consumers seeking entertainment — to deliver an audience. Like direct marketers', the portals' compensation was based largely on the number of responses to the ads — or click-throughs — not on the total size of the audience for the ads. This business model made some sense as long as portals served as gateways. But reliance on banners as a source of sales prospects has become increasingly misguided as consumers change the way they use portals.

As a class, portals remain the most familiar places on the Internet. According to our analysis of 1,093 high-frequency users in July and August 2000, virtually all users — 98 percent — visited a portal at some point, compared with approximately 80 percent who went to entertainment or information sites, and 43 percent who stopped at financial sites. Portals' popularity, in short, dwarfs that of other Web site categories.

In our sampling, 60 percent of user sessions included a visit to a portal; by contrast, only 22 percent of user sessions included a visit to an entertainment site. News and information sites were visited in 20 percent of user sessions, shopping sites showed up in 17 percent, and sports sites appeared in only 5 percent.

The Comfortable Consumer

But the popularity of portals masks a dramatic shift in the way consumers are using them. Today, portals' function as a Web on-ramp is declining. Only about half the participants in our study said they used portals as gateways to other sites. Furthermore, Once marketers look beyond banners, they'll find attractive options to pump up the impact of their messages.

the analysis shows that although users employ portals' search engines in one-third of their sessions, very few Web sites — only 6 percent — are accessed via such searches. This may sound contradictory, but it actually underscores users' growing familiarity with the Internet, and their tendency to return to the places they know. If someone visits 11 sites in each of three sessions, and in one of those sessions uses a search engine to find two sites, the search engine has been used in 33 percent of sessions, but to reach only 6 percent of sites.

A typical cruise on the Web is becoming, for most people, a series of visits to friendly local pubs, with an occasional stop at a new saloon. And, for most consumers, the neighborhood portal is the coziest hangout of them all. Users spend far more time at portals than anywhere else on the Web — an average of four-and-a-half hours per month, which is three times more than they spend at shopping or entertainment sites. In other words, portals have become destinations, favored retreats: places to pick up some news, join a chat, "instant message" a buddy, check stock prices, order a gift, and (not incidentally) conduct a search or two.

The shift toward destination-oriented portals is underscored by the relative popularity of the best-known branded portals. Virtually all the time people spend at portals is spent at full-service portals, such as Yahoo, Excite, CompuServe, and Netscape. Pure search engines, such as Goto.com, Google, and Ask Jeeves, account for only five minutes a month of the average user's time.

The Change Imperative

The popularity of portals should be great news both for their shareholders and for marketers. But portals are hanging on to the failing banner business model, rather than adapting it to people's changing habits. Banner ads accounted for 46 percent of all Internet advertising in the third quarter of 2000, according to the Internet Advertising Bureau; sponsorships accounted for only 28 percent of advertising. Yahoo obtains 90 percent of its revenue from ads. Only AOL, which gets 64 percent of its revenues from selling access to the Internet, does not rely heavily on income from click-through ads.

This overreliance on banner advertising in the face of portals' diminishing role as gateways clearly means their existing business model doesn't make economic sense anymore. If consumers rarely use the sites' directories or search engines, then targeting ads at consumers using searches as the trigger promises little return. The 40 percent crash in click-through rates, to a level few marketers would accept, illustrates why marketers need to fundamentally transform the way they use these sites.

The click-through crisis notwithstanding, portals continue to create a great deal of value for consumers, as evidenced by the increasing amount of time people spend at them. As destinations, portals' value to marketers is similar to that of magazines and cable television channels: Portals aggregate audiences — sometimes broadly, sometimes by demographic characteristics — and deliver messages to them that build brands. And because portals can capture powerful usage data, they can deliver something that TV and magazines seldom do: quantitative insights on the effectiveness of messages, measured not just by impressions, but also by intensity, return rates, and even actual purchases.

New Branding Opportunities

Yet users pay nothing for the value they enjoy, and marketers pay little for the large audiences and deep insights the portals amass. This obvious mismatch between value creation and value capture mechanisms can be fixed if consumer marketers start treating portals as brand-development venues. That is, a marketer should pay a portal for the total number of impressions of the marketer's message it delivers to its site visitors. Likewise, portals should shift away from per-click pricing and align their pricing models to the ways in which they actually capture the audience.

Understanding how people now use portals, traditional consumer marketers can and should make them as standard a part of their marketing mix as print and broadcast vehicles. Once marketers look beyond the banners, they will find attractive new options to pump up the impact of their messages.

Another approach is sponsorships — attaching a marketer's name and messages to an appropriate part of a portal site, similar to what Hallmark has long done with its "Hallmark Hall of Fame" television specials. For example, Quicken.com sponsors the Money & Investing area of Excite.com, which includes chat links to Quicken loan consultants.

New portal services are giving marketers fresh venues for reaching customers. Yahoo Finance and MSN's MoneyCentral now offer account aggregation, a service that assembles a user's financial accounts so they can be viewed together. Aggregation sites get a deep view into users' financial lives and provide an opportunity for bankers, brokers, and other financial-services providers to cross-sell services tailored to a user's specific needs.

Marketers and portals also must develop ways to encourage consumers who are used to free information and services to pay for content. Consider how the World Wrestling Federation (WWF) hooks its audience with free network or basic-cable shows, then captures revenue when viewers sign up for pay-per-view WWF events.

Portals' parent companies have begun to parlay their expertise in site design and content into co-branded ventures with other marketers. Yahoo, AltaVista, and Ask Jeeves and all have

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services aimed at corporations hungry to tap into portals' skills at running technologically advanced sites. Yahoo and PepsiCo Inc. teamed up for a fall promotion in which Yahoo built Pepsistuff.com, where consumers redeemed points for Pepsi merchandise. When the Polo Ralph Lauren Corporation was planning its site and had to choose between going it alone or finding Web-savvy partners, it joined forces with NBCi.com and TV merchant ValueVision International Inc. to create Polo.com. The Polo e-business gets prime visibility in NBCi's shopping section, with NBCi getting a cut of the revenues after Polo.com becomes profitable.

For CEOs of consumer-products companies and their marketing executives, the path forward is clear:

- **Decide on an overall portal strategy.** Is the goal to build brand awareness, position brands, drive direct marketing with banner ads, sell directly on portals, or bits and pieces of all of the above?
- **Pick the portal carefully.** As a combination of media venue, shopping mall, direct seller, media brand, and retail brand, portals are potential competitors to their advertisers, especially retailers, who can be readily disintermediated.
- **Understand why users treat specific portals as destinations.** Build a strategy around the parts of the portal where the target audiences are more amenable to new information or a creative pitch.
- **Don't isolate the Internet.** Planning and budgeting for portal opportunities should be the same as for magazine or cable television spending — a central, not experimental, part of the marketing mix.
- **Push your creativity.** Use your advertising agencies and the portals to deploy a full arsenal of infotainment weapons to create advertising as unique and engaging to the target audience as the best television and print advertising
- **Leverage the portal's data.** Use click-throughs as well as impressions, time spent, recall, and intent-to-buy to measure and improve the effectiveness of dollars spent.
- **Use portals' technical skills innovatively.** Explore options to build co-branded promotional sites (like Pepsistuff.com) or a corporate intranet.
- **Anticipate broadband.** Be ready when high-speed access becomes widely available and used; portals are likely to drive the application, just as they've done with other consumer-friendly technologies such as instant messaging.

And don't forget, portals are still evolving. First they were gateways, now they are destinations, and tomorrow … maybe online movie theaters? Or telephony and videoconference centers? Wherever portals go, the marketers that move with them, and fine-tune their strategies along the way, will get the most horsepower from their favorite Internet engines.+

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