

The Effect of Banner Advertising on Internet Purchasing

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Abstract

In this research, we focus on a hitherto unexplored question – does banner advertising affect purchasing patterns on the Internet? In particular, using a *behavioral* database consisting of customer purchases at a website along with individual advertising exposure, we measure the impact of banner advertising on current customers' probabilities of buying again while accounting for duration dependence. We model the probability of a current customer making a purchase in any given week (since last purchase) via a survival model that uses a flexible, piecewise exponential hazard function. The advertising exposure covariates enter via a proportional hazards specification. These covariates consist of strictly advertising variables such as the number of exposures and the variety of creative treatments as well as advertising/individual browsing variables represented by where and how many pages on which customers are exposed to advertising. Our model is cast in a hierarchical Bayesian framework, thus allowing us to control for unobserved individual differences in the advertising response parameters. Our results show that the number of exposures, number of websites and number of pages on which a customer is exposed to advertising all have a positive effect on repeat purchase probabilities. Interestingly, increasing the number of unique creatives to which a customer is exposed lowers this probability. The unobserved heterogeneity in the response parameters shows that the returns from targeting individual customers are likely to be the highest for the number of advertising exposures followed by the number of sites that they are exposed to advertising on. We use the estimated individual response parameters to compute the increase in revenues due to targeting of advertising (relative to no targeting). In terms of the broader area of research on the effects of advertising, we provide evidence that advertising does affect the purchase behavior of current, in contrast to new, customers.

Keywords: *Advertising Response, Banner Advertising, E-commerce, Internet Retailing, Targeting, Micromarketing, Survival Models, Hierarchical Bayesian Models, Markov Chain Monte Carlo methods*

Introduction

On-line advertising expenditures are expected to rise 29% in 2004 to about \$9.3 billion (BusinessWeek 2004). While Internet advertising is beginning to emerge as a viable medium (Silk et al. 2001), its role and effectiveness has been the source of much debate. Earlier research has shown that exposure to banner advertising leads to increased advertisement awareness, brand awareness, purchase intention and site visits (Dreze and Hussherr 2003, Sherman and Deighton 2001, IAB On-line Advertising Effectiveness Study 1997, Ilfeld and Winer 2002), the relationship between advertising exposure and actual purchasing on the Internet has not been investigated.¹

Since the early days of Internet commerce, there has been a lot of discussion about how the effectiveness of banner ads should be measured. Websites hosting on-line ads have been pushing for traditional “exposure” based metrics, such as “impressions” served, to allow them to charge for each banner exposure. However, difficulties in measuring on-line impressions precisely have caused much dissatisfaction amongst managers resulting in reluctance to commit funds to banner advertising (Hoffman and Novak 2000). Moreover, advertisers, who prefer to pay based on the performance of their ads, feel that impressions generally overstate advertising effectiveness. Instead, advertisers have been pushing for heuristic metrics of performance such as “click-through”, which indicates when a web surfer clicks through to the advertiser’s URL via the banner (see Chatterjee et al. 2002 for an analysis of click-through behavior). However, the effectiveness of click-through as a valid measure is also being called into question (Dreze and Hussherr 2003, Briggs 2001, *BusinessWeek* On-line 2001a, Song 2001). The fact that typical click-through rates are quite small in magnitude, 0.5% on average (Sherman and Deighton 2001, Dahlen 2001, Warren 2001), has led practitioners to believe that banners are ineffective. Moreover, click-through is a measure of a *visit* to the website. Since there is considerably evidence that only a small proportion of visits translate into final purchase (Moe and Fader 2003), click-through may be too imprecise for measuring the effectiveness of banners served to the mass market. These studies therefore underscore the importance of investigating the impact of banner advertising on actual purchase behavior.

In this research, we focus on a hitherto unexplored question – does banner advertising affect purchasing patterns on the Internet? In particular, using a *behavioral* database consisting of customer purchases at a website along with individual advertising exposure, we measure the impact of banner

¹ A banner advertisement is a section of on-line advertising space that is generally 480 x 60 pixels in size. It typically consists of a combination of graphic and textual content and contains a link to the advertiser’s website via a click-through URL (Uniform Resource Locator), which acts as a web address.

advertising on current customers' probabilities of buying again while accounting for duration dependence. In particular, we examine whether, given a temporal interval since the last purchase, a customer makes a purchase at the website of interest and how this decision is influenced by exposure to banner advertising. We formulate a model of individual purchase timing behavior as a function of advertising exposure. We model the probability of a current customer making a purchase in any given week (since last purchase) via a survival model. Effectively, a purchase represents "failure" while no purchase represents "survival". The duration dependence in the customers' purchase behavior is captured through a flexible, piecewise exponential hazard function (Wedel et. al. 1995). The advertising covariates enter via a proportional hazards specification. We use a much richer set of covariates than has been typically used in past research (where advertising is only measured as the amount of exposure). Specifically, the covariates we use consist of strictly advertising variables such as weight and "diversity" (number of creative treatments) as well as advertising/individual browsing variables represented by where and how many pages on which customers are exposed to advertising. Our proposed model also controls for unobserved individual differences by specifying a distribution over the individual customer advertising response parameters. We do this by formulating our model in a hierarchical Bayesian framework. This also allows us to provide some insights into where the returns from targeted banner advertising are the highest and the extent to which the returns are higher compared to no targeting.

In terms of the broader area of research on the effects of (any type of) advertising on individual consumers, our work adds to the studies that have investigated the effects of advertising on purchase timing and incidence behavior in at least two ways. First, it documents the effect of more facets of advertising than has been in studies with individual data (as described above). Second, a banner advertisement is a different form of advertising relative to a standard ad in terms of visual quality, attention-getting ability and creative execution. Thus, our findings complement the findings of the effect of advertising at the individual level documented in previous research. Our main finding is that, contrary to popular belief, exposure to banner advertising has a significant effect on Internet purchase behavior. This is reflected in our model as an increase in purchase probability (after controlling for duration dependence) as a function of banner advertising exposure. From a managerial perspective, banner advertising has a positive effect on purchase probabilities in any given week (since the last purchase) over and above the duration dependence effects. These results also suggest indirectly that click-through is a relatively poor measure of advertising effectiveness as it results in a very small proportion of overall purchases.

We find that the number of exposures, number of websites and number of pages on which a customer is exposed to advertising all have a significant effect on customer purchase probabilities. Interestingly, increasing the number of unique creatives to which a customer is exposed lowers the purchase probability. In general, the effect sizes of banner advertising on purchase are in the same order of magnitude as the effects sizes of traditional advertising. We also find evidence of considerable heterogeneity across consumers in response to various aspects of banner advertising. The extent of heterogeneity shows that the returns from targeting individual customers are likely to be the highest for the weight of advertising (the number of advertisements that they were exposed to in a given week) followed by the number of sites that they are exposed to advertising. Using the individual response parameters, we carry out an experiment that demonstrates, even under very simple targeting approaches, there are significant increases in the effectiveness of banner advertising in terms of changing purchase probabilities and hence, profitability. Finally, in terms of the broader area of research on the effects of (any type of) advertising, we provide somewhat unique evidence that advertising does affect the purchase behavior of current, in contrast to new, customers.

The structure of the paper is as follows. We first briefly discuss prior work in this and related areas. We then give an overview of the data. We present the details of the models next. We then discuss the results and the managerial implications of our findings. We conclude the paper with a discussion of the limitations of the present study and provide directions for future research.

Literature Review

Our specific focus in this paper is the role of banner advertising in a digital environment such as the Internet. However, our study also builds on a long tradition in marketing of estimating (conventional) advertising response models using individual level data. We therefore discuss the relationship between our study and previous studies in both domains.

Most of the academic (e.g., Dreze and Hussherr 2003, Dahlen 2001, Cho et al. 2001 and Gallagher et al. 2001) and industry research on advertising in digital environments has focused on measuring changes in brand awareness, brand attitudes, and purchase intentions as a function of exposure (as against the effects of banner advertising on actual purchase behavior). This is usually done via field surveys or laboratory experiments using individual (or cookie) level data. Thus, the focus has really been on understanding the role of banner advertising on the awareness stage.

In contrast to studies using experimental data, Sherman and Deighton (2001) describe the process of serving banner advertisements and collecting response data in detail. They also report the

results of an experiment carried out by a web advertising agency and an on-line merchant that showed that targeting advertising to specific customers and websites increases response rates and drives down the average cost-per-action (due to confidentiality restrictions, they report only broad, aggregate level findings). Ilfeld and Winer (2002), show using aggregate data that increased online advertising leads to more site visits.

As mentioned above, there is a long tradition of research in marketing that models response to advertising using conventional scanner panel data (see Lodish et al. 1995 and Vakratsas and Ambler 1999). Our research builds upon this tradition by estimating a purchase incidence advertising response model with *individual* level response parameters after controlling for unobserved heterogeneity. Thus, our research complements other research that has used individual level data but has only estimated brand choice models (Tellis 1988 and Deighton et al. 1994). The managerial usefulness of brand choice models that ignore purchase incidence has been questioned by other researchers (Pedrick and Zufryden 1991, p. 112). Note that, given our data, we cannot model brand choice. In terms of previous research that does model purchase incidence, our work extends it via a more detailed treatment of unobserved heterogeneity (e.g., Zufryden 1987 uses a summary measure) as well as the explicit incorporation of advertising covariates (e.g., in contrast to Pedrick and Zufryden 1991). Finally, in contrast to other studies which measure (individual) exposure to advertising via aggregate advertising dollars (e.g., Mela et al. 1998, Ilfeld and Winer 2002), we use individual banner advertising exposure.

Findings from industry research (*Businessweek Online* 2001a, 2001b, Tran 2001, Song 2001, DoubleClick Press Release 2001, Warren 2001, Briggs 2001) show that banner advertising has attitudinal effects and that click-through is a poor measure of advertising response. These findings are generally consistent with the findings of the academic research discussed earlier. Interestingly, in addition to the attitudinal effects of banner advertising, we find a few studies that provide some informal evidence of its behavioral effects as well. In this paper, we use a formal model to investigate these behavioral effects for current customers.

The key differentiating managerial issue on the Internet is that firms and customers can build and manage relationships with *individual* customers in a much more cost-effective manner relative to other domains. Our research examines the influence of one marketing instrument - banner advertising - on a specific aspect of this relationship i.e., purchase probability. To this end, our research uses banner advertising exposure and purchase data at the *individual* consumer (cookie) level and calibrates advertising response parameters at the individual level. This also distinguishes from

previous research on advertising response using conventional panel data. Our research is also distinct from extant banner advertising research as it has largely been limited to the influence of banner ads on attitudes rather than on behavior.

Data

The data come from an Internet-only firm engaged in selling healthcare and beauty products as well as non-prescription drugs to consumers. The data were processed and made available to us by the advertising agency that was responsible for serving the advertisements for the firm in question. Due to the nature of the data sharing agreement between us and the two firms, we are unable to reveal the name of either firm. The data span *all purchasers* at the site during a period of three months in the third quarter of 2000, specifically from June 11th to September 16th. The data are available at the individual cookie level. As mentioned earlier, most datasets used to investigate on-line environments usually comprise of browsing behavior only. Our data are unique in that we have individual level stimulus (advertising) and response (purchase incidence). The data are contained in two databases – the *CAMPAIGN* database and the *TRACER* database.

The *CAMPAIGN* database comprises the on-line advertisement banner exposure and click-through response originating from promotional campaigns that were run on websites. The data fields in the *CAMPAIGN* database consist of consumer data - a unique cookie (we use the term cookie and consumer interchangeably in the paper) identifier identifying the individual computer,² an indicator variable denoting consumer response to the banner advertisement (view or click),³ and the date and time of banner view or click; and advertising data – the portal or alliance site’s web page where the banner advertisement view or click occurred, and a unique key identifying the specific banner advertisement.

² However, our data only allow us to identify a unique *computer* and not a unique *consumer*. Our assumption of equivalency between a consumer and a computer could be a strong one in certain environments (see Dreze and Zufryden 1998 for details).

³ Note that since we are working with behavioral data, we are unable to control for the exact nature of exposure. In other words, we are making the assumption that if the consumer was on a specific page and the banner appeared on that same page, s/he actually *viewed* the advertisement. This assumption is consistent with prior research that has examined the effect of advertising exposure on sales for individual consumers (see detailed discussion in Deighton et al. 1994, p. 34) as well as experimental studies using banner ads (e.g., Dreze and Hussherr 2003). Even given this assumption, the fact that banner ads are probably even lower involvement than TV ads (small size, exposure in the presence of competing information) argues *against* our finding any effects of banner ad exposure.

In terms of the websites on which the advertising was delivered, the database contains records of the company's advertising on portal and alliance websites such as, among others, Yahoo!, AOL, Women.com, iVillage.com, Healthcentral.com, and E*Trade. These sites accounted for over 80% of all advertising activity by the firm during this period. Note that though we have a unique identifier for each site on which the banner advertisement was served, we do not know the *specific identity* of each site. Advertising activity typically consisted of a specific creative that operated over several weeks. In terms of the advertising message contained in the various creatives, we know that the majority of the messages were of the brand-building type for the website (i.e., the message consisted of the name of the website and a line describing the benefits of purchasing from the website). A limitation of the data is that we do not have information on the specific message in each banner (even though we have an indicator that tells us that one creative was different from another). This creative was delivered to websites in the form of a digital graphic, generally referred to as a GIF. These GIFs were of the usual size for banner advertisements (480 x 60 pixels). New GIFs were typically released at the beginning of a calendar week i.e., on Sunday and/or Monday, reflecting media buying patterns. During the period covered by our data, there were one hundred total GIFs spread over fifteen major sites. However, the majority of exposures came from a small number of GIFs – seven GIFs accounted for about 55% of all exposures.

The *TRACER* database contains the date and time of the purchase transaction for each unique cookie identifier. Note that we do not have information on visits to the site that did not result in a purchase. We merged the *CAMPAIGN* database with the *TRACER* database using unique cookie identifiers. This resulted in 14370 unique cookies. We then examined the purchasing patterns of these cookies in the context of our discrete time formulation. Given that banner advertising activity was planned by the firm for each week, we chose the time interval to be a single week. Hence, our unit of observation is a “cookie-week.” However, if there are a significant number of cookies that purchase multiple times in a single week, our model would be inappropriate. An examination of the data revealed that 99% of the 14370 cookies did not purchase multiple times in any given week. We then deleted all the cookies for which we could construct only one observation (i.e., if their purchase occurred in the last six calendar days of our data) as we would be unable to obtain individual level parameters for these cookies (we describe how we construct the weekly data for each cookie in the model specification section below). Finally, we deleted purchase transactions with blank cookies, repeat transactions (identical transactions at identical times) and observations with obvious data entry errors. This resulted in a panel of 12748 cookies with a total of 97805 observations. The

number of observations in the data is the sum (over the 12748 cookies) of the total number of weeks for each cookie after the cookie's first purchase.

Out of these 97805 observations, a purchase is made on 14.3% (13955) observations while there is no purchase on the remaining 85.7% (by no-purchase we mean no purchase at online store that provided us the data). It is instructive to compare this proportion with purchases based on click-through. Based on the sample click-through and purchase rate of 0.25% (consistent with rates documented in earlier studies and validated by the firm's advertising agency), we find that click-through only purchases are an order of magnitude smaller than purchases in our data (1134 purchases versus 13955 purchases across all purchasers). This, combined with feedback from the firm's executives, leads us to conclude that click-through is not an important path to purchase (for customers of this website). This is also consistent with findings based on experimental research (Dreze and Hussherr 2003).

Model

We investigate the purchase behavior of customers who are exposed to banner advertising by the website. We model the potentially duration dependent purchase incidence decision – whether or not and when to buy from the website - via a semiparametric survival model (see Seetharaman and Chintagunta 2003 for a comparison of alternative specifications). Specifically, we estimate a constant piecewise exponential hazard model in discrete time (Wedel et al. 1995). This allows the intrinsic purchase incidence probabilities, in the absence of covariates, to vary over time. We use this formulation instead of a standard purchase incidence model as we believe that duration dependence effects are likely to be large and significant in our data (relative to cross-sectional effects). The decisions of when and whether to purchase are also modeled as a function of the advertising exposure and browsing behavior variables at the individual customer level. To capture variability in individual choices, we allow for the individual response parameters to be distributed across customers.

As noted above, our model formulation focuses on the weekly purchase decision i.e., consumers decide every week whether they plan to purchase or not as a function of the timing of their last purchase, marketing and behavioral variables as well as unobserved heterogeneity. Our model falls into the class of semiparametric survival models (Meyer 1990). The main advantage of the semiparametric specification is that it does not impose a specific distributional assumption or a shape on duration dependence, i.e., the baseline hazard. In this model, the no purchase weeks for

each customer are treated as the “survival” weeks while the purchase weeks are treated as the “failure” weeks. Earlier modeling research using customer browsing data has found evidence of heterogeneity (Moe and Fader 2003, Bucklin and Sismeiro 2003). We therefore account for heterogeneity using a continuous distribution over the individual customer response parameters. We cast our model in a hierarchical Bayesian framework and estimate it using Markov chain Monte Carlo methods (see Rossi and Allenby 2003 for a detailed review of such models). In general, with a few notable exceptions (Allenby et al. 1999, Lee et al. 2003), the use of proportional hazard models under the Hierarchical Bayesian framework has been somewhat limited in the marketing literature. Note that our model form is analogous to purchase incidence models such as the binary logit/probit with temporal fixed effects. We now describe the specific model, the prior distribution of the unknowns, the likelihood function and the resulting posterior distributions

The Semiparametric Survival Model

Let t_{ij} denote the interpurchase time for consumer i 's spell j . Then the survivor function corresponding to this time is given by:

$$S(t_{ij}) = \exp\left(-\int_0^{t_{ij}} h(u) du\right) \quad (1)$$

Note that since our data are discrete survival data, we use a discrete time model to predict the probability of purchase. We first split the time axis into a finite number of intervals, $0 < s_1 < s_2 < \dots < s_J$, with $s_j > y_{it}$ for all $i=1,2,\dots,I$ and $t=1,2,\dots,T_i$, where y_{it} represents the survival time for customer i 's t^{th} observation. Thus, we have J intervals, $(0, s_1], (s_1, s_2], \dots, (s_{J-1}, s_J]$. Following the convention in the discrete-time semiparametric hazard function literature (e.g., Meyer 1990), we replace the integral in equation (1) for each of the J intervals by the following expression:

$$\int_{(t-1)_{ij}}^{t_{ij}} h(u) du = \exp(\lambda_j) \quad (2)$$

This represents a *piecewise exponential hazard* model where we assume a constant baseline hazard, $h_{0j}(y) = \log(\lambda_j)$, for $t_{ij} \in I_j = (s_{j-1}, s_j]$ where I_j is the indicator function. The $\log(\lambda_j)$ parameters do not correspond to calendar time but to the time interval following the last purchase. They enable us to assess whether the data indicate duration dependence when the parameters are

different for different time intervals or durations. Note that, for most cookies, we only have one observation for each of the J intervals. Thus the data support inference about the baseline hazard only at the pooled level i.e., we cannot specify a heterogeneity distribution across customers for any of the $\log(\lambda_j)$ parameters.

We then let the effect of the covariates enter multiplicatively i.e., we use a proportional hazard formulation. Let x_{pij} represent the p^{th} covariate for customer i in the time interval j . As we have repeated measures across customers (once we control for the pooled baseline hazard), the response parameters can be customer specific. Thus, equation (2) becomes:

$$\int_{(t-1)_{ij}}^{t_{ij}} h(u) du = \exp(\lambda_j + \sum_{p=1}^P (x_{pij} * \beta_{pi})) \quad (3)$$

The piecewise exponential model is general in the sense that it is sufficiently flexible to accommodate a wide variety of shapes of the baseline hazard. Note that if $J = 1$, the model reduces to a parametric exponential model with a failure rate $\lambda = \lambda_1$. It is also parsimonious in the sense that there is only one unknown parameter per time period. Given equation (3), the probability of purchase (“failure”) in any of the j time intervals for a customer i is given as:

$$\Pr_{ij}(\text{purchase}) = 1 - \exp(-\exp(u_{ij})) \quad (4)$$

where $u_{ij} = \sum_{j=1}^J (\lambda_j * I_j) + \sum_{p=1}^P (x_{pij} * \beta_{pi})$ where $I_j = 1$ in time interval j , 0 otherwise. Thus, the overall log-likelihood for all the customers in the sample is

$$LL_i(\beta_i, \lambda | \phi, x) = \sum_{i=1}^I \sum_{j=1}^J [\log(\Pr_{ij}) * \phi_{ij} + \log(1 - \Pr_{ij}) * (1 - \phi_{ij})] \quad (5)$$

where ϕ_{ij} is an indicator function which is equal to 1 if customer i purchases in time interval j , 0 otherwise and β_i and λ are vectors of β_{pi} and λ_j .

The Bayesian hierarchy and Inference

We cast our model in a hierarchical Bayesian framework. Given that we would like to obtain simultaneously the cross-sectional parameters for the discrete time hazards and the individual level parameters for the response coefficients, this framework is particularly appealing. Under this framework, to complete the model, we need to specify the prior distribution of the unknowns and derive the full conditional distributions.

Let $\psi_j = \log(\lambda_j)$ for $j=1,2,\dots,J$. We assume that ψ_j are distributed multivariate normal with mean ψ_0 and variance V_ψ . We capture unobserved heterogeneity via the distribution of β_i (where β_i is the vector of the response parameters) by allowing for them to be distributed multivariate normal with mean β_0 and variance V_β i.e.,

$$\beta_i = \beta_0 + \nu_i \quad (6)$$

where $\nu_i \sim N(0, V_\beta)$. The hyperparameters β_0 and V_β are distributed multivariate normal and Inverse Wishart respectively.

We derive the full conditional distributions of the unknowns, $(\psi, \beta_i, \beta_0, V_\beta)$, using the joint density (equation 5) and the specified prior distributions. We then draw sequentially from this series of full conditional distributions until convergence is achieved. Both the full conditional distributions and the inference process are standard – hence we do not describe them here (a detailed appendix is available from the authors on request).

Model Specification

We first discuss how we specify the baseline hazard. We have thirteen calendar weeks in our data. We created the spell variables for each cookie in the following manner. We initialized the first spell for each cookie to the calendar week corresponding to the first purchase occasion. We then created purchase indicators, ϕ_{ij} (equation 5), for each week following this initial week for each cookie. If there was no purchase in a subsequent week, the spell counter was incremented by one and the purchase indicator was set to zero. If there was a purchase, then the indicator variable was set to one. The spell counter was restarted at one for the week following the purchase week. Then thirteen indicator variables, $I_1 \dots I_{13}$ (equation 4), were created and set to one corresponding to the spell counter for that week for that cookie. As mentioned, the indicator variables do not represent the calendar week but the number of weeks elapsed since last purchase. The coefficients of each of these variables, $\psi_j = \log(\lambda_j)$, represent the constant hazard for that week (except for ψ_{13} that represents the hazard of week 13 and higher weeks). The four advertising covariates that we use (described below) are then constructed for each cookie-week.

We now consider the advertising variables. We postulate that the decision of whether to purchase in each week will be affected by advertising exposure (weight and diversity) as well as

individual differences (both observed and unobserved). We first discuss the advertising variables. We expect that banner ads act as reminder tools and/or brand builders for current customers. Thus, exposure to banner advertising is likely to increase the probability of purchase (Cho et al. 2001). We therefore construct the following variables (a) VIEWNUM, which represents the total number of advertising exposures in each week for each customer and (b) ADNUM, which represents the number of creatives (GIFS) that the consumer was exposed to each week.

Prior research has shown that repeated exposures to an advertisement prevent the early decay of advertising effects (Pechmann and Stewart 1988, Cacioppo and Petty 1985, Dreze and Hussherr 2003). We therefore expect that increased exposure to advertising (VIEWNUM) should increase the probability of purchase in a given week. However, at some point the response to advertising should provide diminishing returns. As the empirical evidence in general supports a concave response to advertising weight (Lilien et al. 1992, p. 267), we use $\log(1+VIEWNUM)$ or LVIEWNUM in our specification (to accommodate weeks when VIEWNUM=0). In terms of the variety of creative execution, prior research has indicated that response to different creatives can be quite different (Lodish et al. 1995). It has also been shown that recall is enhanced if consumers are exposed to different creatives in the same campaign (Rao and Burnkrant 1991). However, in our case, while all the creatives essentially advertise the website, they are not part of a single campaign. We therefore have no prediction regarding the effect of ADNUM on inter-purchase times.

We also need to control for differences across consumers in terms of prior purchase behavior and browsing behavior. These differences could be both observed and unobserved. Observed differences may arise due to two kinds of variation – purely cross-sectional variation (e.g., demographics) and cross-sectional combined with longitudinal variation (e.g., usage and browsing behavior). Usage variables capture systematic differences in customers' use of digital environments. For example, some customers may spend more time on the Internet and may therefore be more prone to buying from web merchants. Thus the individual probability of buying for such a consumer could be affected by individual browsing behavior and individual advertising exposure.⁴ Our data do not contain any direct measures of Internet usage and browsing behavior. However, we use the data available to us and develop create two proxy variables that potentially reflect individual differences in Internet usage (a) SITENUM, which represents the total number of unique websites on which the

⁴ Note that individual exposure to advertising may be systematically different across consumers if the firm and its advertising agency were strategically targeting advertising to *individual* cookies based on prior browsing and/or purchase behavior. However, our discussions with the firm revealed that, during the time-period of our data, this was not the case as the technology to do this was still not available for commercial use.

consumer was exposed to advertising each week and (b) PAGENUM, which represents the number of unique web pages on which the consumer was exposed to advertising each week.

Note that the use of these variables controls for both across-customer (in that the means of these variables are likely to differ across-customers) and within-customer (as there may be differences in these variables for the same customer across weeks) differences. From the usage based arguments laid out above, we expect these variables to have a positive effect on the decision to purchase each week. From an advertising perspective, prior research has shown that viewing a series of ads leads to higher recall and more positive attitudes (Pechmann and Stewart 1988, Zielske and Henry 1980). We therefore expect that the probability of purchase is higher for consumers exposed to advertising on many different websites (SITENUM) and pages (PAGENUM).

Taken together, these four covariates provide a richer description of individual exposure to advertising than has typically been studied in the literature.⁵ Specifically, we have data on quantity, diversity and the location of exposure in contrast to just quantity. In addition, a banner advertisement is a different form of advertising relative to a standard ad in terms of visual quality, attention-getting ability and creative execution. To summarize, we expect to see a positive sign for the coefficient of LVIEWNUM, SITENUM and PAGENUM while the sign for ADNUM could be either positive or negative. Note that a *positive* coefficient *increases* the purchase probability and a *negative* coefficient *decreases* the purchase probability.

The temporal sequence of events for a typical customer in our data is as follows. Every week the consumer is exposed to some advertising spanning (possibly) different creatives. These exposures occur at (possibly) different web pages on (possibly) different websites. As a result, each week the consumer decides whether to purchase or not (given a purchase in the past). In terms of identification, the three sets of parameters are identified in the following manner. First, the time dummies - these are identified from the aggregate temporal purchase patterns (they are pooled across consumers) after controlling for the effect of the covariates. Second, the mean response parameters - these are identified by variation *across* consumers. Finally, we have the individual response parameters - these are identified by variation *within* consumers. In terms of the data, the mean (standard deviation) of LVIEWNUM, ADNUM, SITENUM and PAGENUM in the data are 0.25 (0.66), 0.23 (0.64), 0.07 (0.30) and 0.09 (0.33).

⁵ Note that some of our measures may be perfectly confounded with a non-advertising related behavior e.g., ADNUM could be confounded with site content if different creatives appear on different sites systematically. Given our data, we cannot disentangle these effects. We thank an anonymous reviewer for pointing this out.

Results

Model Estimates: Duration Dependence

The mean (posterior standard deviation) baseline hazard parameters, ψ , for weeks 1 to 13 are -3.57 (0.06), -2.80 (0.04), -2.54 (0.03), -2.74 (0.04), -2.48 (0.04), -2.49 (0.04), -1.78 (0.03), -1.97 (0.04), -1.98 (0.04), -0.96 (0.02), -1.30 (0.03), -0.89 (0.03) and -0.31 (0.03). All the parameters have posterior distributions that are massed at a considerable distance from zero. These parameters map directly to the purchase probability in a given week j . The higher the magnitude of ψ_j , the higher the probability of purchase. The estimates show that there is some non-monotonicity in the probability of purchase as the number of weeks since the last purchase goes up. As can be seen from the estimates, the probability of purchase in a given week increases somewhat for the first three weeks and then remains flat until week six. After week six, we see two peaks in week seven and week ten, followed by a dip in week eleven and then an increase for the following weeks. This is consistent with the mean time between purchases in our data (about seven weeks). The estimated survival pattern does not conform to any well known parametric survival function formulation. This provides some support for our choice of a piecewise exponential hazard formulation.

Model Estimates: Advertising Covariates

We next examine the effect of covariates at the mean level i.e., the β_0 vector (see Table 1). The overall pattern of the results indicates that the advertising weight, diversity and the individual browsing variables have an effect on the decision to purchase in any given week (all the posterior means are massed away from zero). These effects are as predicted. First, as advertising weight (the log of the number of advertising exposures every week – LVIEWNUM) goes up, the survival probability is lowered. In other words, greater exposure to advertising (numbers) has a positive effect on the purchase probability albeit in a manner consistent with diminishing returns. Interesting, the two main studies that have investigated the effect of advertising on repeat purchasers using individual exposure data are Deighton et al. (1994) and Tellis (1988). Neither study finds any effects of advertising on repeat customers (operationalized as the interaction between exposure and last brand chosen). Thus, these studies find no effects on repeat brand choice behavior. To the best of our knowledge, there are no other studies that have found a positive effect of advertising on current customers. Thus, our finding is unique in this regard.

However, the effect of advertising diversity (the number of creatives that a customer is exposed in every week – ADNUM) is positive on the survival probability. So, exposure to more creatives in a week decreases the probability of purchase. This result is not surprising given that previous research has not hypothesized or documented a specific direction of the relationship. This may be due to the fact that repetition (of the same message) aids consumers in learning and retaining the ad content. This fact is especially relevant given the plethora of competing banner messages to which a web surfer may be simultaneously exposed. This result is also more consistent with the Lodish et al. (1995) finding cited earlier. In addition, given that the creative content of a banner ad is relatively constrained, exposure to more creatives can lead to more fragmentation rather than reinforcement.

Insert Table 1 about here

The effect of exposure to ads on many different websites (SITENUM) and many different pages (PAGENUM) is to lower the survival probability. Thus, broadly speaking, the more the number of locations (sites and pages) on which the consumer is exposed to advertising, the higher the probability of purchase. Cross-sectional differences in browsing behavior across the total number of consumers could account for this effect. However, as discussed below, the fact that the individual response coefficients are all positive implies that even within consumer, exposure on a greater number of locations increases the purchase probabilities.

In terms of the differences across customers, the mean (posterior standard deviation) of the V_{β} diagonal elements of LVIEWNUM, ADNUM, SITENUM and PAGENUM are 0.11 (0.03), 0.10 (0.01), 1.86 (0.53) and 0.15 (0.03). This implies that there is considerable heterogeneity across customers (detailed discussion follows). The correlation patterns across the response parameters are also interesting. First, only two of the six correlations are massed away from zero. This suggests that the response coefficients of four advertising variables are not highly correlated across individuals i.e., the four variables measure different facets of responsiveness to advertising. Second, the correlation in response parameters across LVIEWNUM and SITENUM is negative and massed away from zero (-0.54). This implies that responsiveness to advertising is lower for consumers who are more responsive to being exposed to banner advertising on many websites. As the mean effect of both LVIEWNUM and SITENUM is positive, there are tradeoffs in developing individual level targeting based on these two variables. Third, the correlation in response parameters across ADNUM and SITENUM is negative and massed away from zero (-0.41) i.e., customers who are more responsive to different creatives are less responsive to being exposed to advertising on many websites.

However, as the main effect of ADNUM seems to be negative, this correlation implies that it may be better to expose consumers to the same creative at a small number of sites for maximal response.

In summary, we find that, in our data, advertising weight and copy affect consumers' decision to visit the website and make purchases. In addition, we also find that cross-sectional differences in browsing behavior have an effect on purchase probabilities. Finally, exposure on distinct locations (sites and pages) for the same consumer also tends to increase the purchase probability. We also find that these response parameters vary across consumers and that there are some interesting correlations across these parameters.⁶

Managerial Implications

We now use our results to explore their implications on managerial practice. First, we compute the average effect sizes of the various advertising variables. Second, we investigate the variation in consumer responsiveness to advertising to obtain an understanding of the returns to targeting.

Elasticities

To understand the extent of the effect sizes, we compute the change in probability of purchase for a ten percent change in the advertising variable for each observation and then compute the mean elasticity across observations and draws post burn-in. The mean (standard deviation) elasticity magnitudes for VIEWNUM, ADNUM, SITENUM and PAGENUM are 0.02 (0.01), -0.03 (0.01), 0.05 (0.02) and 0.04 (0.02). Note that even though the mean effects are small, the standard deviations indicate that they are massed away from zero. As can be seen from the table, the elasticities are in the same order of magnitude i.e., within one-tenth the estimated reported for conventional advertising in the literature (e.g., Sethuraman and Tellis 1991 report an average advertising elasticity of demand of 0.10).

There are some interesting implications of these findings. First, it seems that firms need to cut back on exposing customers to different creatives and stick with a smaller set of creatives. This result may also be a reflection of the fact that banner ads are limited in terms of the creative that they can deliver. Second, it seems that the weight and diversity of advertising have smaller effects than where consumers are exposed to banner advertising. This reinforces the belief in the industry that delivering a consistent message across many different sites and pages is the most effective

⁶ We also compared our model to a series of null models where we (a) assumed only duration dependence (b) only advertising covariates (simple purchase incidence model) and (c) duration dependence (via time since last purchase and time since last purchase squared) and advertising covariates using a purchase incidence model. Our proposed model performed better than these models both within and out of sample.

method of marketing communication on the Internet where there are many distractions on the same web page. Third, the number of websites on which a customer is exposed to advertising is about as important as the number of pages on which the customer is exposed. However, as the average effect of websites is higher than effect of pages, for advertising decisions on the margin, firms should locate themselves on the high-traffic pages across more websites rather than spread exposures across many possibly unrelated pages.

Returns to Targeting

Given that the average effect sizes banner advertising are significant, managers may be interested in exploiting the one-to-one targeted marketing potential of the Internet. To do this, we need to compute the returns to targeting across the four advertising/individual difference variables used in our analysis. The answer to this can be obtained by examining the heterogeneity in response parameters across the individual customers. We compute the coefficient of variation (standard deviation divided by the mean) for the distribution of the individual response parameters to describe the size of the variation in response across the four parameters. They are 0.92 (LVIEWNUM), 0.22 (ADNUM), 0.34 (SITENUM) and 0.07 (PAGENUM). These numbers imply that individuals differ the most in terms of response to the number of ads they are exposed to, followed by the number of sites on which they are exposed, the number of creatives they are exposed, and then the number of pages. The returns to targeting therefore follow the same order.

We formalize our findings on the returns to targeting through a stylized revenue (profitability) experiment. First, we classify customers as “high sensitives” (H) and “low sensitives” (L) via a median split on each of the four individual level parameters. We then bin them into four groups – HH, HL, LH and LL – using their sensitivity on the two stimuli which we identified (above) that the returns from targeting are likely to be the highest - LVIEWNUM and SITENUM. In other words, a HL customer is one who is a “high sensitive” on the amount of exposed advertising but a “low sensitive” on the number of sites on which the exposure occurs. We then choose a week sufficiently far out from the last purchase occasion, Week 9, to contrast the effect of targeted and un-targeted advertising purchase behavior and profitability. We first assume that the firm can expose customers (who do not purchase in Week 9) to one, two or three banner advertisements. These ads can be distributed on one, two or three sites. In the un-targeted strategy, all these customers get exposed to the identical number of banner ads on the same number of sites. In the targeted strategy, we choose different levels of exposure and sites depending upon the classification of the customer. We then compute the new probability of purchase (in each condition)

and take the product of that probability with the average historical dollar expenditure by that customer – the expected revenue - on the website. We then sum across all the chosen customers to obtain the total revenue in each condition. On the basis of industry feedback, we assume that every additional exposure costs the firm \$0.05 and that there is a \$0.02 charge for every additional website that the advertising is placed on. We computed the return for each strategy as $[(\text{Total Revenue} - \text{Total Cost})/(\text{Total Cost})]$ of each strategy. The results are given in Table 2. Note that the absolute values reported in the table may or may not be meaningful. For the purpose of our stylized experiment, it is only important to focus on the relative values.

Insert Table 2 about here

There are three interesting findings from the table. First, the return is always greater for the targeted advertising strategy. This is in spite of the fact that we use a simple targeting rule such as a median split and then assign the number of exposures and number of websites in a fairly simple manner. Second, the general magnitude of the return gets smaller as more exposures are provided – the maximum return is 108, 141 and 159 for three, two and one exposure. This is likely due to the diminishing return nature of response to exposure. Finally, the return gets greater as the options for targeting get larger. To clarify, the incremental return for an additional three, two and one exposures are 19% (108/91), 14% (141/123) and 5% (159/152) respectively. With only one additional exposure, firms are limited in how they can target, e.g., they can decide which customers to expose to and on which site. In contrast, with three exposures, finer targeting is possible, leading to higher (relative) returns. In conclusion, even with a simple targeting strategy, the firm can reap significant benefits. Thus, this experiment demonstrates the value of obtaining individual level parameters to create profitable targeting strategies.⁷

Discussion

Our findings above have several implications for managers. First, we do find unique evidence that exposure to banner advertising has a significant effect on Internet purchasing. Specifically, we find that, all else being equal, exposure to banner advertising increases the purchase probabilities for current customers. Second, the elasticity estimates are in the same order of magnitude as those documented for conventional advertising, suggesting that managers should expect to see effect sizes that are consistent with other forms of advertising. To the best of our knowledge, this is the first

⁷ We also carried out a separate experiment where we targeted using a median split on the LVIEWNUM response coefficient subject to the constraint that the advertising expenditure was identical across the targeted and untargeted groups. Even under this extremely simplistic targeting strategy (which provides a lower bound), we found the gain from targeting to be between 1.2 and 2.1% for up to three additional ads.

documentation of these effect sizes. Third, our data and results show that ad exposure is likely to lead to an increase in purchase probabilities after exposure. This implies that managers may be focusing on the wrong metric when they use instantaneous metrics such as click-through to measure advertising effectiveness. Fourth, our results have implications for the design and execution of banner ad campaigns. Broadly speaking, campaigns should be designed such that customers are exposed to fewer (and more consistent) creatives across many pages and websites. Fifth, given a fixed number of exposures and creatives, returns to exposure are somewhat higher for sites first and then pages. Finally, while the mean response to the number of exposures is somewhat lower, the returns to targeting on this measure are likely to be the highest. A stylized experiment shows that the returns to targeting are higher than not targeting (even when the number of exposures is constant across the two groups) and that these returns get relatively higher as the targeting options get larger.

Conclusion

Our research fits into the small, but growing subfield of empirical research dedicated to measuring the impact of the Internet on marketing policy areas such as pricing, product assortment and advertising. This paper is the first attempt, to the best of our knowledge, to model the effects of banner advertising on the customer Internet purchasing. We use a unique dataset to investigate the effects of banner advertising on the weekly purchase probability of existing customers. Our main finding is that, contrary to popular belief, banner advertising does affect purchase probabilities. We find this because our modeling approach allows for temporal separation between advertising and purchase behavior. We speculate that the temporal separation exists because advertising acts as a brand building tool and/or a reminder. The corollary to this finding is that measures of instantaneous behavior such as click-through may be a poor measure of advertising effectiveness. We find that both the weight and diversity of advertising have an effect on customers' purchase probabilities. An interesting finding is that the more the creatives a customer is exposed to in a given week, the lower is the purchase probability. Given a relatively simple medium like banner advertising and the amount of competing information on web page, different messages may be diluting the impact of advertising. Our findings also show that exposure to banner advertising on more (unique) websites and web pages has a slightly larger effect on the individual purchase probabilities than the weight and diversity of advertising. This may be because these two covariates contain information about both advertising exposure and individual differences in browsing behavior.

We also find evidence of considerable heterogeneity across consumers in response to advertising. Heterogeneity is highest for the ad weight response followed by the number of unique exposure sites. Thus, for maximal response, targeted communication should be based on these two response variables. We show the managerial benefits of our approach through a stylized experiment that demonstrates that targeted banner advertising provides relatively higher returns. Finally, in terms of the broader area of research on the effects of (any type of) advertising, we provide somewhat unique evidence that advertising does affect the purchase behavior of current customers.

We would also like to note some limitations of our research. These limitations arise primarily from the lack of information in our data. First, we note that our results may not apply to customers who have not purchased items at least once at this website. Second, we do not have any demographic information and other relevant behavioral metrics (such as Internet usage) on the cookies. This information may have been useful in explaining a larger part of the unobserved heterogeneity. Third, our results would have been richer if we had information on the actual message contained in each advertisement and the identity of the referral sites. Fourth, we do not have any knowledge of the other marketing variables such as price and promotion during consumers' purchase visits. We were also unable to detect any effects of lagged advertising in our data. Finally, the correct targeting experiment to carry out is to allocate advertising in the targeted case such that the marginal profit (revenue minus cost of goods sold) for each customer-week is equal to the marginal cost of delivering the banner ad. As our data do not contain information on the *profit* per customer and cost of delivering an ad to a specific website on a specific day, we are unable to do this. These limitations may be addressed in future research by running formal field experiments (as in Lodish et al. 1995) or by obtaining richer datasets that provide natural variation on these dimensions.

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Table 1: Expected and Estimated Effects (Covariates)

<i>Variable</i>	<i>Expected Sign</i>	<i>Mean</i>	<i>Posterior Std. Dev.</i>
LVIEWNUM	+	0.10	0.01
ADNUM	?	-0.25	0.02
SITENUM	+	1.55	0.07
PAGENUM	+	0.84	0.05

Table 2: Returns to Targeting

<i>Group/Stimulus</i>	<i>Optimal Exposure/Site</i>	<i>Revenue (\$)</i>	<i>Cost (\$)</i>	<i>Return^(a)</i>
Additional Exposures = 3				
Un-targeted ^(b)	3/2	71989	781	91
Targeted ^(c)		67376	616	108
<i>HH, HL, LH, LL</i>	3/3, 3/1, 2/2, 0/0			
Additional Exposures = 2				
Un-targeted ^(b)	2/2	71574	575	123
Targeted ^(c)		54074	380	141
<i>HH, HL, LH, LL</i>	2/2, 2/2, 1/1, 0/0			
Additional Exposures = 1				
Un-targeted ^(b)	1/1	43945	288	152
Targeted ^(c)		42087	263	159
<i>HH, HL, LH, LL</i>	1/1, 1/1, 1/1, 0/0			

(a) Return is computed as (Total Revenue - Total Cost) / (Total Cost).

(b) For the un-targeted scenario, there could be different strategies, e.g., 3 exposures on 3 sites versus 2 sites. We simulated all possible scenarios and picked the one with the highest return (for 3 exposures, it was 2 sites and for 2 exposures, it was 2 sites as well).

(c) This represents the banner ad placement for each group, e.g., 3/2 represents 3 exposures on 2 sites.