International Journal of Research in Marketing 34 (2017) 480–498

Contents lists available at ScienceDirect

IJRM

International Journal of Research in Marketing

journal homepage: www.elsevier.com/locate/ijresmar

Full Length Article

The impact of contextual television ads on online conversions: An application in the insurance industry

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ARTICLE INFO

Article history:
First received on December 8, 2015 and was under review for 4 months
Available online 11 October 2016

Senior Editor: Peter C. Verhoef

Keywords:
Contextual advertising
Spillover inhibition effect
Television advertising
Advertising effectiveness
Cross-media effects

ABSTRACT

The use of contextual advertising, defined as the delivery of ads in related editorial contents, is expected to grow in the television industry due to the development of new technologies. However, the impact of this practice on behavioral consumer responses remains elusive. Using data from an online price comparison company, we study the short- and long-term effects of contextual television advertising on consumers' online conversions. We find that contextual ads have a higher immediate effect than non-contextual ads on consumers' responses for the product that is related to the context. However, both effects are similar in the long term. Additionally, our results suggest that the total impact of contextual advertising can be smaller than the net impact of neutral advertising due to a "spillover inhibition effect": Compared with ads placed in neutral contexts, contextual ads generate fewer online conversions for products that are unrelated to the context. Our findings stress the importance of assessing the long-term impact of contextual advertising on the product portfolio, rather than just on the context-related product. Failing to do so could lead to advertising allocation decisions with lower returns on investment.

1. Introduction

To increase advertising effectiveness, brands place their ads in shows that are related to their products. For instance, a car company could advertise on a car show such as Top Gear whereas a fitness brand could advertise on a show such as ABC's Extreme Weight Loss. The use of contextual advertising—that is, the delivery of ads in related editorial contents—is currently popular among advertisers in the television industry. According to a recent advertising survey, 33% of the respondents currently try to place their television ads by content (Forbes Insights, 2015). Furthermore, technological developments in the area will facilitate the implementation of contextual advertising on television, which is expected to spur interest among entrepreneurs and broaden its use by advertisers. Similar to the functioning on the internet, the digitalization of traditional media content will allow to match words describing programs, or even programs' scenes, to words describing the advertised brand (Beard, 2010). Contextual advertising is seen as one of the tools that will enable television networks to compete more effectively with the online advertising industry. Large companies such as Google and Turner Broadcasting have already begun initiatives to offer ad placement partially based on the match between ads and program contents (Anthony, 2014; Perlberg & Barr, 2015). Moreover, large advertisers such as Honda, Chrysler, and SC Johnson have begun buying contextually placed advertising slots (Consoli, 2010).

Despite the enthusiasm generated by contextual television advertising, its impact on behavioral consumer responses remains elusive. Probably due to the unique nature of the data required to study contextual advertising in real settings, prior research has mainly relied on

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http://dx.doi.org/10.1016/j.ijresmar.2016.10.002

experimental designs to study its effects on measures such as attitudes, memory, and purchase intentions. Moreover prior research has found contradictory evidence regarding the effectiveness of contextual advertising. Some studies argue that contextual ads decrease ad effectiveness because they are less likely to capture consumers' attention (Furnham, Gunter, & Richardson, 2002; Furnham & Price, 2006; Dahlen, Rosengren, Torn, & Ohman, 2008), while others state that contextual ads increase ad effectiveness because they are more relevant to consumers (Moore, Stammerjohan, & Coulter, 2005; Moorman, Neijens, & Smit, 2002; Shamdasani, Stanaland, & Tan, 2001; Yaveroglu & Donthu, 2008). To our knowledge, no prior empirical study has assessed which one of these effects actually holds on behavioral consumer responses, which is frequently the metric of interest for managers.

The goal of our research is to study the impact of contextual television advertising on behavioral consumer responses, focusing our attention on online conversions, an important metric in cross-media research (Kannan, Reinartz, & Verhoef, 2016). To achieve this aim, we use a unique data set obtained from a large online product comparison company operating in France. During a period of eight months, the company aired more than 8000 brand television ads encouraging consumers to visit its website. Because the company inadvertently placed brand ads in television programs that were related to one of its products, the dataset provides a unique opportunity to study the effectiveness of contextual advertising on television.

To identify contextually placed ads, we compare the content of the program broadcast immediately before the ad and the various products the firm offered. Approximately 5% of the ads were placed in programs related to one of the products. We use the gross rating points (GRPs) of these ads to create a “contextual advertising” variable. Similarly, we use the ads placed in contexts that were not related to any of the products to create a “neutral advertising” variable. We assess the impact of the two types of advertising on online conversions for the three best-selling products of the company (two of which are unrelated with the programs of contextually placed ads).

Our results indicate that neutral advertising has an impact on the conversions of the three products under study. In addition, we find that contextual advertising is almost three times more effective than neutral advertising at generating conversions for the context-related product in the short run. However, the elasticities are similar in magnitude when we take into account the carry-over effects of both advertising types. Interestingly, we do not find evidence to support the notion that contextual ads generate conversions for products that are not related with the context. This last result suggests that when brand ads are placed in contexts that are not related to any of the products in the portfolio, the brand advertising effect spill over to all the products in the portfolio. When ads instead are placed in contexts related to one of the products, brand advertising does not increase conversions for products that are unrelated to the context. This *spillover inhibition effect* implies that contextual advertising can have a lower return on advertising than neutral advertising.

Extant research on contextual advertising has mainly focused on examining the impact of contextual advertising on stated rather than actual behavior. Moreover, due to methodological limitations that are common in experimental and survey-based research, prior studies have been unable to study the long-term effects of contextual advertising. Therefore, our main contribution is to complement prior research by studying the short- and long-term consequences of contextual advertising on consumers' actual behavior. Additionally, because we study the impact of (offline) television advertising on online conversions, our research also contributes to the emergent body of research on cross-media effects (De Haan, Wiesel, & Pauwels, 2016; Kannan et al., 2016; Joo, Wilbur, & Zhu, 2016; Pauwels, Aksehirli, & Lackman, 2016; Srinivasan, Rutz, & Pauwels, 2015) that study the impact of different offline marketing activities on different online metrics. From a managerial perspective, our research suggests that it is necessary for advertisers to evaluate the effectiveness of their contextual advertising efforts by considering their long-term effects on the brand portfolio rather than just the context-related product. Failing to do so may result in advertising allocation policies with lower returns on investment.

2. Related literature

2.1. Effects of contextual advertising on context-related products

Prior experimental research on contextual advertising argues that placing an ad in a product-related context can increase or decrease its effectiveness compared to ads that are not contextually placed (see Maille & Fleck, 2011 for a review). Theoretical arguments in favor of contextual advertising state that the context itself can serve as a prime that activates a product's category in memory. Activation can increase the likelihood of recalling a need associated with the product (Herr, Sherman, & Fazio, 1983; Higgins & King, 1981), make the ad more notable increasing the attention to it (Higgins, Bargh, & Lombardi, 1985), and enhance the likelihood that the ad will be positively evaluated due to increased processing fluency (Goldberg & Gorn, 1987; Landwehr, Labroo, & Herrmann, 2011). Prior empirical studies support the notion that matching the context and the ad leads to increased advertising effectiveness (Moorman et al., 2002; Shamdasani et al., 2001; Yaveroglu & Donthu, 2008).

However, another stream of the literature suggests that contextual matching can actually decrease advertising effectiveness. From a theoretical point of view, the similarity between the context and the ad can generate cognitive interference as the content of the ad is merged with the content of the context. Cognitive interference could lead to lower attention to the ad, lower information processing, and lower recall (Burke & Srull, 1988; Kumar, 2000; Meyers-Levy & Tybout, 1989; Noseworthy, Di Muro, & Murray, 2014). These theoretical arguments have also been tested and supported by prior empirical studies (Furnham et al., 2002; Furnham & Price, 2006; Dahlen et al., 2008).

Prior research offers some insights into these contradictory findings. Dahlen et al. (2008) suggest that, for familiar brands, the match between the ad and the context is less surprising, which reduces the effectiveness of the ad. However, for unfamiliar brands, any context could be surprising but contextual ads enjoy higher processing fluency and, thus, should be more effective. De Pelsmacker, Geuens, and Anckaert (2002) argue that contextual advertising does not work better when consumers are highly