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### Internet Economy: Valuing the Web's Economic Impact

Tangible or Intangible, Its Effect on Business and Culture is Big

Posted by [John Deighton](#) and John Quelch on [06.24.09](#) @ 06:20 PM



John Deighton

Older internet users may remember the battles over the commercialization of the web, or the "World Wide Web," as it was known in the early 1990s, when the first Mosaic browser was introduced. Back then, pioneering adopters passionately condemned the first web advertisers and tried to bring down their sites with "flaming" attacks. The fight was lost as consumers voted for free information supported by advertising over subscription services.



John Quelch

Ironically, online advertising and the commercialization of the web achieved important goals of the resisters -- to preserve the web as a medium for free publishing and communications. A recent TNS study reported the leading activities of internet users as:

- used a search engine to find information (81%);
- looked up the news (76%); used online banking (74%);
- looked up the weather (65%); researched a product or service before buying it (63%);
- visited a brand or product website (61%);
- paid bills (56%);
- watched a video clip (51%);
- used a price comparison site (50%);
- listened to an audio clip (44%).

All of these activities either are subsidized by advertisers or take the place of traditional advertising, information search and purchasing and banking transactions. Free access to information entertainment, along with speedier and more convenient transactions, are a great deal for consumers. Social networks and the easy connections they facilitate are transforming social life and have helped to elect a President. They also increase productivity in the larger economy.

How can we quantify the economic impact of the internet? A new study we prepared with Hamilton Consultants for the Interactive Advertising Bureau uses three methods to value the contribution of the advertising-supported internet to the U.S. economy:

- **Employment value.** The internet employs 1.2 million people directly to conduct advertising and commerce, build and maintain the infrastructure and facilitate its use. Each internet job supports approximately 1.54 additional jobs elsewhere in the economy, for a total of 3.05 million, or roughly two percent, of employed Americans. The dollar value of their wages is about \$300 billion, or around two percent of U.S. GDP.
- **Payments value.** The direct economic value the internet provides to the rest of the U. S. economy is estimated at \$175 billion. It comprises \$20 billion of advertising services, \$85 billion of retail transactions (net of cost of goods) and \$70 billion of direct payments to internet service providers. In addition, the internet indirectly generates economic activity that takes place elsewhere in the economy. If one used the same multiplier as for employment, 1.54, then the advertising-supported Internet creates annual value of \$444 billion.
- **Time value.** At work and at leisure, about 190 million people in the United States spend, on average, 68 hours a month on the internet. A conservative valuation of this time is an estimated \$680 billion.

The advertising-supported internet also helps the economy by fostering innovation, entrepreneurship and productivity, particularly among small businesses that create most new jobs in the U.S. In addition, larger companies in this sector, such as Cisco, Google or Adobe, have been a haven of relative stability through the current economic downturn and boost the U.S. balance of trade through their global sales.

Consider also the social benefits of the internet, harder to quantify but including the power of access to information as well as greater flexibility in balancing work and family obligations through telecommuting. The economic downturn is accelerating consumer interest in social networks and online communities as a source of support. And 19% of all U.S. marriages are now the result of bride and groom meeting via the internet.

When regulators start trying to constrain the internet, let's be aware of its enormous and ever-increasing economic and social impact. The internet is an economic powerhouse that drives U.S. competitiveness and productivity.

~ ~ ~  
*John Deighton and John Quelch are both Harvard Business School marketing professors.*

#### 1 Comment

By Rodney33 | FRISCO, TX [June 25, 2009 10:41:50 am](#):

Great points!

One additional thought, smart phones will soon be the #1 way US consumers interact with the web, based on smart phone penetration and the fact the cell phones outnumber computers by 3x. That means the web is always with you, knows where you are through GPS, and is involved in the majority of your personal communication.

Regulators should have no power or authority to constrain the internet as doing so is an invasion of privacy and freedom of speech. They should be empowered to enforce Federal Laws that pertain to the public in general that are not internet specific.

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