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The Internalization of Advertising Services: An Inter-Industry Analysis

by Sharon Horsky, Steven C. Michael and [Alvin J. Silk](#)

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Abstract

The common perception appears to be that vertical integration of advertising services is more the exception than the rule in the U.S. advertising industry. This study investigates the extent of such outsourcing and examines inter-industry variation in the use of in-house rather than independent advertising agencies by U.S. advertisers. While the vast majority of [large](#) advertisers employ outside agencies, it comes as a surprise to find that when advertisers of [all sizes](#) are considered, about half operate some form of in-house agency. Internalization of advertising services is much more widespread than has hitherto been appreciated and varies widely across industries. To explain this variation, we draw on concepts from research on scale economies and transaction costs to develop a set of hypotheses which we test in cross sectional analyses of data covering 69 two digit SIC industries at two points in time, 1991 and 1999. Across industries, we find that the likelihood of internalization of advertising services [decreases](#) as the size of advertising outlays increase but [increases](#) as advertising intensity and technological intensity increase and is greater for "creative" industries.

Keywords: [Advertising](#); [Cost](#); [Data and Data Sets](#); [Management Analysis, Tools, and Techniques](#); [Service Operations](#); [Creativity](#); [Perception](#); [Vertical Integration](#); [Technology](#); [Advertising Industry](#); [United States](#);

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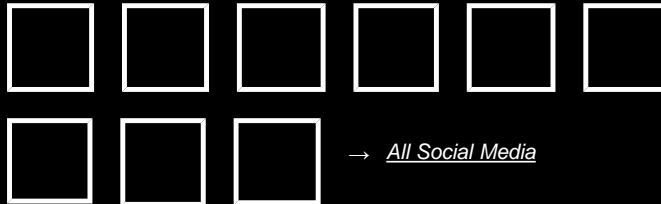
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