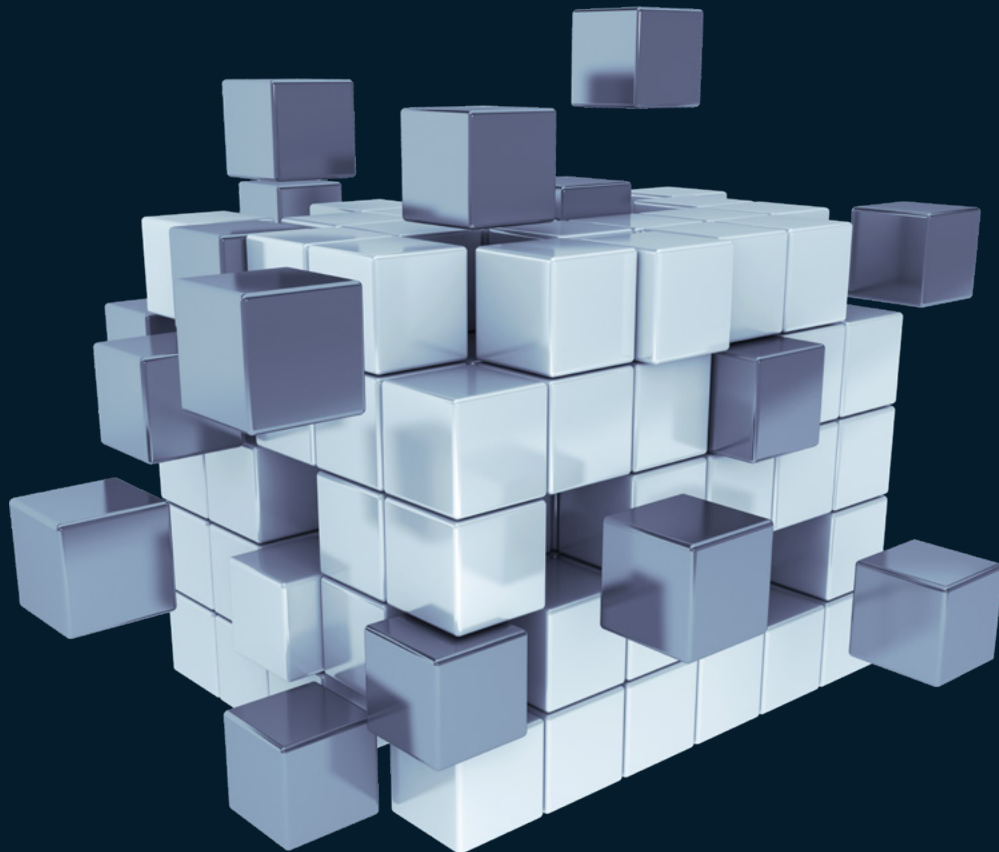


Marketing & Sales Practice

The demise of third-party cookies and identifiers

How this big shift will threaten the US digital advertising industry—and compel its transformation.

by Marc Brodherson, Adam Broitman, Craig Macdonald, and Simon Royaux



Executive Summary

A profound and abrupt shift is coming for everyone who uses the internet. By 2022, regulations designed to protect consumer privacy—particularly the California Consumer Privacy Act—and major technology companies will require users' explicit permission to share and use data generated from digital interactions. Because users are generally unaware of how their data is used and are unlikely to consent to sharing their data, the \$152 billion US digital advertising industry will lose access to most third-party data, which has powered programmatic advertising (advertising purchased and sold using software).¹

The change will be a reckoning for the advertising industry. The loss of third-party data will leave marketers, ad agencies, and the publishing and media vehicles where advertising appears with little or no first-party data (data directly from

consumers who consent to sharing it) in the dark about behavioral and demographic insights that currently help them create target audiences and segments. Although our research suggests that some executives in the US ad ecosystem do not think this loss will materially affect their revenue and finances, the economic impact on advertisers, publishers, and providers of data platforms is uncertain, and the challenges are immense (see sidebar, "About the research").

Advertisers and publishers will now need to depend primarily on their own first-party data, or on data from walled gardens, contextual targeting, and greater support from data platforms². Industry participants' preparedness to take on this task varies widely, but advertisers, publishers, and data platform companies all have the opportunity—and an imperative—to redesign their data solutions. The right path for each stakeholder will be different, but the cornerstone

¹Digital advertising in North America – statistics & facts," Statista Research Department, March 25, 2021, statista.com.

²Walled gardens are closed ecosystems in which the service provider owns and controls applications and content. They tend to be large platforms that collect consumer data at scale. Contextual targeting supplements data about audience location and makeup based on inferred demographic and psychographic attributes with information on the content's subject matter and projected audience.

About the research

This work is the synthesis of in-depth interviews with 28 senior decision makers (at the vice president level or higher) who work with data at brands, publishers, agencies, and ad tech and data companies, to get a sense of their approach to the industry's challenges.

Each interview agenda covered:

1. How the decision maker's organization currently uses audience data
2. How each organization was investing in audience data
3. What the decision maker thought the key challenges were for digital marketers
4. The decision maker's assessment of the industry's readiness for the loss of third-party cookies and identifiers and the kinds of changes stakeholders should make

The interviews, each an hour long, were conducted in January and February of 2021 and provided interviewees an open format to speak in depth about topics that were of particular interest to them.

effort should be to create and sustain consumer relationships that produce a value exchange, meaning content from or access to publishers and platforms in exchange for personal data, that is based on trust. Advertisers will need to build new data strategies that rely on first-party data or cooperate with walled gardens. Our analysis suggests that the publishing industry will have to replace up to \$10 billion in ad revenue with a combination of first-party data gathered through a combination of paywalls and required registrations, and updated contextual targeting and probabilistic audience modeling (analytics that incorporate an array of unknown elements). For data platform providers, fortune will favor the large. Industry players should update their approaches to obtaining and managing data and discovering the right data solutions for them. Advertisers' audience reach along with many publishers' and data platforms' business models are at stake.

A challenging industry-wide experiment

After a history of operating without formal and consistent protections for consumer data, the US digital ad industry faces significant challenges with ambiguous solutions. Consider that the importance of programmatic advertising has ballooned in the past decade and accounted for 78.4 percent of US spending on display and video advertising in 2020 (exhibit).³

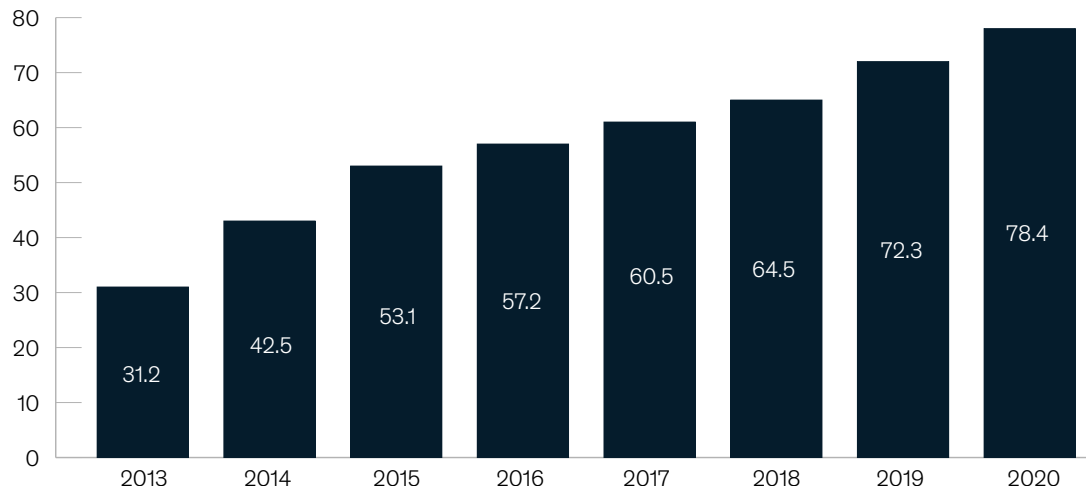
Many major US publishers currently use first-party data in their ad targeting, and executives interviewed for our research said that they believe the data changes will not have a significant impact on their businesses because they have had authentication and paywalls in place for years. Other publishers, mostly non-premium players, depend on third-party targeted ads for more than 80 percent of their

³Based on analysis of 2012–2020 data on the size of the advertising industry in the United States, and total US spending on programmatic advertising. Magna Global. Access date February 17, 2021, magnaglobal.com.

Exhibit

Spending on programmatic advertising has grown as a share of the US display and video advertising market.

Share of US advertising market, %



ad revenue. Even premium publishers, whose content consumers actively seek out—rely on a combination of first- and third-party data to help their advertisers target audiences.

Third-party data's exact effect on ad revenue is unclear: one study found that publishers only increased ad revenue by 4 percent from use of third-party data; another estimated that turning off third-party data decreased ad revenue by 50 to 60 percent.⁴ However, our analysis suggests that up to \$10 billion in US publisher revenue is at risk.

In a series of interviews, decision makers in publishing agreed that publishers will have to decide whether—and at what point—to charge audiences for content, either in the form of a paywall or an explicit exchange of first-party data for access. However, coming to such a decision is itself arduous, time consuming, and resource intensive.

In the short term, we expect advertisers to rely more on walled gardens (such as social networks) to drive audience targeting, given their intimate knowledge of consumer affinities and their wide reach. In the longer term, advertisers will rely on their own first-party data as they invest in revamped consumer experiences that allow them to extend their access to this data. For advertisers disconnected from the retail transaction (such as traditional consumer goods companies and low-consideration goods and services), this data will be sparse and likely ineffective. In all cases, advertisers will face the challenge—and opportunity—of combining data from multiple sources for existing programmatic campaigns, while also building data strategy to take advantage of the many new addressable media channels such as connected TV, digital audio, and home solutions that also use first-party data.

Rebuild ad targeting and data strategies

After the loss of third-party cookies and identifiers, advertisers and publishers will find that the value of direct engagement with consumers will further increase. To create consumer connections, advertisers and publishers should create experiences that consumers consider worthwhile. Advertisers and publishers will also need to identify the investments and operating approaches that will help them stay connected with as many consumers as possible.

Advertisers: Rethink earning and managing consumer data

All data strategy should be informed by the advertiser's brand promise. Advertisers that traditionally enjoy strong consumer engagement in sectors such as travel, retail, entertainment, and financial services, have a relatively firm footing because maintaining a value exchange with customers is the norm. Brand marketers in sectors that are usually removed from the customer transaction, such as consumer packaged goods (CPG), automotive, and pharmaceuticals, by contrast, lack dependable playbooks. Managing the consumer experience, partnering to share data, and updating data management will all be important.

Create consumer trust with compelling consumer experiences

The most prepared advertisers we studied are designing consumer experiences in which consumers actively consent to sharing data (for instance, transparency on data collected, visibility into value exchange, data collection seamlessly embedded into user experience). Indeed, experiences that are valuable to consumers tend to generate data as a byproduct.

⁴Vishveshwar Jain, "What digital publishers need to know about cookie blocking," *Ad Age*, January 17, 2020, adage.com; Deepak Ravichandran and Nitish Korula, "Effect of disabling third-party cookies on publisher revenue," Google, August 27, 2019, google.com.

The right experience varies widely by industry, but the need for it is motivating many advertisers we studied to innovate. For instance, the most advanced companies have discrete consumer experience functions that work with the support of media, IT, and legal to responsibly capture and manage consumer data.

For higher-consideration products and services, relationship building is an important goal. But for products that are lower consideration or that don't have a direct connection to consumers, lifestyle content is a common workaround and can be branded as a separate digital experience from the parent brand, such as a cooking website owned by a CPG company. Because these assets build consumer experiences around product categories instead of specific brand traits, the approach captures only a small subset of consumers, so advertisers will need to use other sources of data to scale their reach.

Share data in partnerships

Partnerships can help advertisers manage the shift to operating without third-party data. Most marketers in our research said that they expect to reallocate more of their ad budgets to the walled gardens to access their large consumer bases, scale, and knowledge of consumer affinities. Marketers also expect to move some of their ad budgets to new addressable media such as connected TV and retail media networks (which use retailers' customer data to target consumers).

These data partnerships will be key in the coming years. For instance, advertising networks from retailers provide data sets that are especially useful for CPG and pharmaceutical companies. There are many of these new media networks being formed across travel, financial services, grocery, luxury retail, and auto. The challenge is to ensure consistent customer identification and definition across audience segments using disparate data pools, and to protect consumer privacy at the same time.

Overhaul data management

Advertisers should experiment with different combinations of first-party data, updates to data management approaches, investments in technology, and data partnerships. While advertisers can still use first-party data to understand the effectiveness of targeted media, they will also need to use probabilistic targeting to address users based on their behaviors. Specifically, they will need to combine their analysis of their first-party data with aggregate data from data platforms to project ad attribution. Contextual marketing (marketing whose content is relevant to the publisher content with which it is displayed) can also help advertisers target consumers based on the content they consume rather than who they are. However, contextual marketing's scale is limited by the necessity of creating ad content that complements editorial content. Industry executives we interviewed said that contextual advertising rarely meets campaigns' viewership goals.

Fragmented tactics to manage consumer data mean advertisers will need to build fresh data management processes to jump-start virtuous cycles of using personalized experiences to attract and identify consumers, which leads to even better personalization. While third-party cookies identified consumers by their browser addresses, a holistic consumer profile would span devices and browsers. Marketers should develop ways to leverage these consumer profiles to develop targeting, execution, direct marketing, and branded consumer experiences. Many have started, but the effort requires investments such as in consumer data platforms (CDPs), which manage marketing data, resolve IDs, and interact with advertising and marketing technology platforms. Advertisers can use the resulting consumer profiles to eliminate redundant marketing, better control the frequency of individual consumers' exposure to messages, and increase return on ad spending.

Publishers: Transform content monetization

The central challenge for publishers is creating a consumer experience that optimizes audience size and value exchange. The results of that effort will affect how publishers analyze the resulting data to monetize their content.

Consumer experiences should facilitate value exchange

Managing the consumer experience will be a balance between offering free and authenticated content (which requires a registration or subscription to access). Publishers should more aggressively encourage visitors to register or subscribe. Based on our research, we believe that more publishers will allow visitors from a single IP address to access a finite number of free articles per month.

Because of their engaged readers, premium publishers are already adept at value exchange, usually using paywalls to restrict access to content after a reader reaches a limited number of free articles per month. Such publishers' first-party data may lend itself to proprietary ID maps—identity maps that connect consumer touchpoints with marketing signals to provide a single, reliable, 360-degree view of customers—that mimic those of walled gardens. However, the ad market is likely incapable of absorbing unique ID maps from a large number of publishers because of the complexity that would result—many brands advertise through hundreds if not thousands of publishers across multiple channels. Instead, the industry will likely use a limited number of ID maps from the largest walled gardens and syndicated sources of aggregators to consistently identify audiences. If this happens, publishers will only have to ensure that their first-party ID maps can be translated into industry-standard ID maps to facilitate large-scale campaigns while being able to provide differentiated data sets for more targeted campaigns.

Shift data management and monetization practices

To gather data on content and advertising effectiveness, publishers should partner with data providers—and each other—to effectively and consistently profile consumer cohorts. For instance, credit-card networks and syndicated sources of data can be used to augment publisher data with audience insights such as demographics, location, and available purchase history. Publishers can also consider forming multiple partnerships focused on identity resolution (collecting and matching identifiers across devices and channels to build a holistic profile of a consumer).

Absent reliable first-party data, publishers can monetize content through contextual advertising. While its efficacy is as yet unclear, some publishers have begun to test it by turning off third-party cookies for a portion of their content to use those interaction rates to set prices and build the business case for contextual advertising. Taken a step further, publishers could try augmented contextual advertising, which requires content to be tagged at the point of creation and combined with audience data to profile audience cohorts by their consumption habits. However, no industry standards for content tagging exist, and it is unclear if augmented contextual advertising offers net benefits compared to contextual advertising alone. And, contextual targeting is limited in its reach. For example, if one is targeting an audience interested in *green vehicles* in English, there simply is not enough content and inventory available currently on this narrow topic using contextual advertising. Publishers will have to offer hybrid approaches in order to provide both the scale and targeting required by advertisers.

At the same time, analytics teams will need to shift from deterministic modeling (analytics that uses one-to-one consumer data) to probabilistic modeling (which provides a probable range of outcomes) for campaign efficacy. This change

in methodology means that publishers' sales, monetization, and reporting teams will all need to adjust their communication with advertisers to set new expectations on how to target, track, and manage advertising on their platforms.

Platform providers: Move away from third-party data

Advertisers and publishers' need for patchwork data solutions will be a boon for some platform providers and a challenge for others, but the largest providers, with their vast pools of first-party data, will be positioned to win disproportionate chunks of the market. Demand-side platforms (DSPs, which help advertisers purchase video and display ads from disparate sources on a single interface) that had invested in assets and capabilities that hinge on third-party data will have to adjust their value proposition or risk becoming irrelevant. However, the DSPs that have their own consumer ID maps—especially walled gardens and platforms with immense scale—will be at an advantage in the post-cookie and identifier ad market.

Data platforms, which access and manage data across consumer devices and media types, can

also help advertisers combine publishers' ID maps to create consistent segment definitions. As with DSPs, the largest data platforms will have a structural advantage, especially if they offer data from diverse addressable media channels such as display, video, connected TV, and digital audio. Our analysis suggests that this market in the US was already worth \$5 billion as of 2020 and will become more important as the changes to the data ecosystem fragment the addressable media space and make reliance on the platforms key in executing advertising campaigns.

The end of third-party cookies and identifiers will test the capabilities and preparation of advertisers, publishers, and data platform companies. By focusing on offering value to consumers and audiences and testing and learning to discover the most effective ways to continue reaching audiences, the nimblest publishers and advertisers and the largest data platform companies can thrive.

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