



Digital Brief 008

SCAPE of CARDS




*Digital advertising is doing great. Revenue from this channel grew 20% in 2015 and is set to surpass TV advertising next year as the largest category of ad spend. But you wouldn't know it from the press. Everywhere you look from trade publications to industry conferences and now the general media, all you hear about are the problems with digital advertising. It's no secret that the sector suffers from a fragmented ecosystem of intermediaries (as depicted by our eponymous LUMAscapes) and such a convoluted supply chain has been blamed for a series of issues that plague the sector. These issues have implications for all the key constituents from marketers to agencies, tech intermediaries, publishers and consumers. **It's a scape of cards!***

Digital Advertising's Scape of Cards Issues



We force ranked the issues based on their impact on the ecosystem as a whole with increasing importance from serious to critical to existential. The first four issues are either between constituents (Transparency, Header Bidding) or are universal problems that will eventually get solved via technology or consolidation (Measurement, Latency). The Privacy / Tracking issue is a big one with consumer groups, especially in Europe. It is critical to treat consumers' data fairly and so far the industry has not exactly delivered on its promise of a better user experience from increased ad relevancy. Mostly, we see retargeted ads of the product we already purchased! The industry needs to do better and as closed loop attribution becomes more pervasive, this problem should improve.

Digital Advertising's Scape of Cards Issues

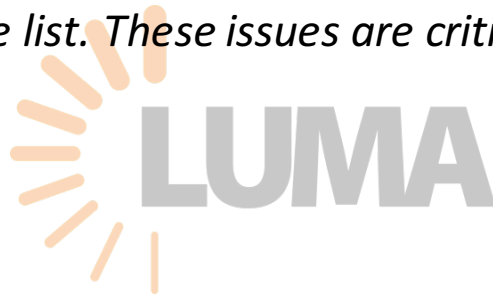
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1. Transparency
 2. Measurement
 3. Latency
 4. Header Bidding
 5. Privacy / Tracking
 6. **Viewability**
 7. **Fraud**
 8. **Ad Blocking**
 9. **Walled Gardens**
 10. **Fragmentation**

CRITICAL

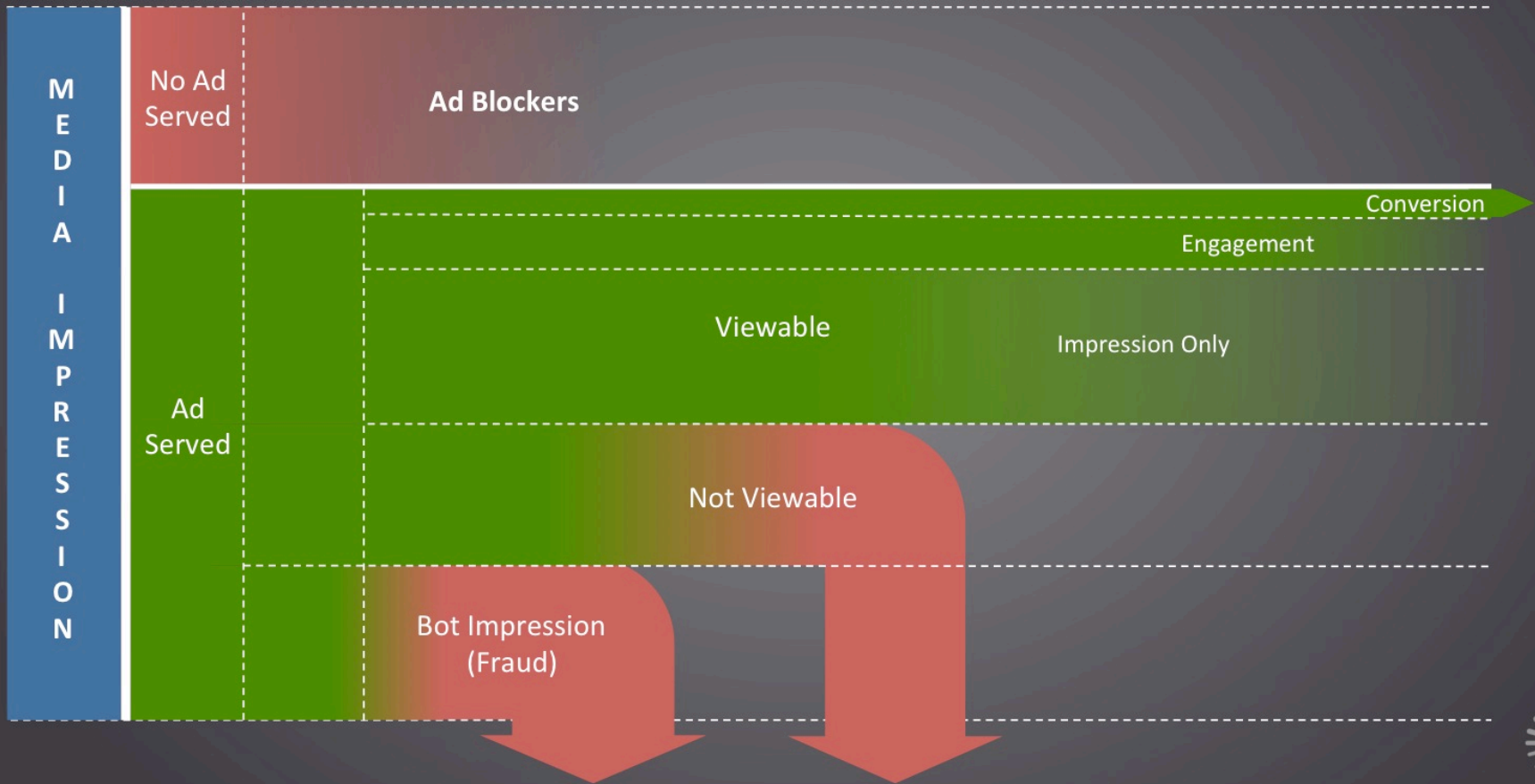
EXISTENTIAL



Then there's the bottom half of the list. These issues are critical if not existential. Let's take a closer look at these.

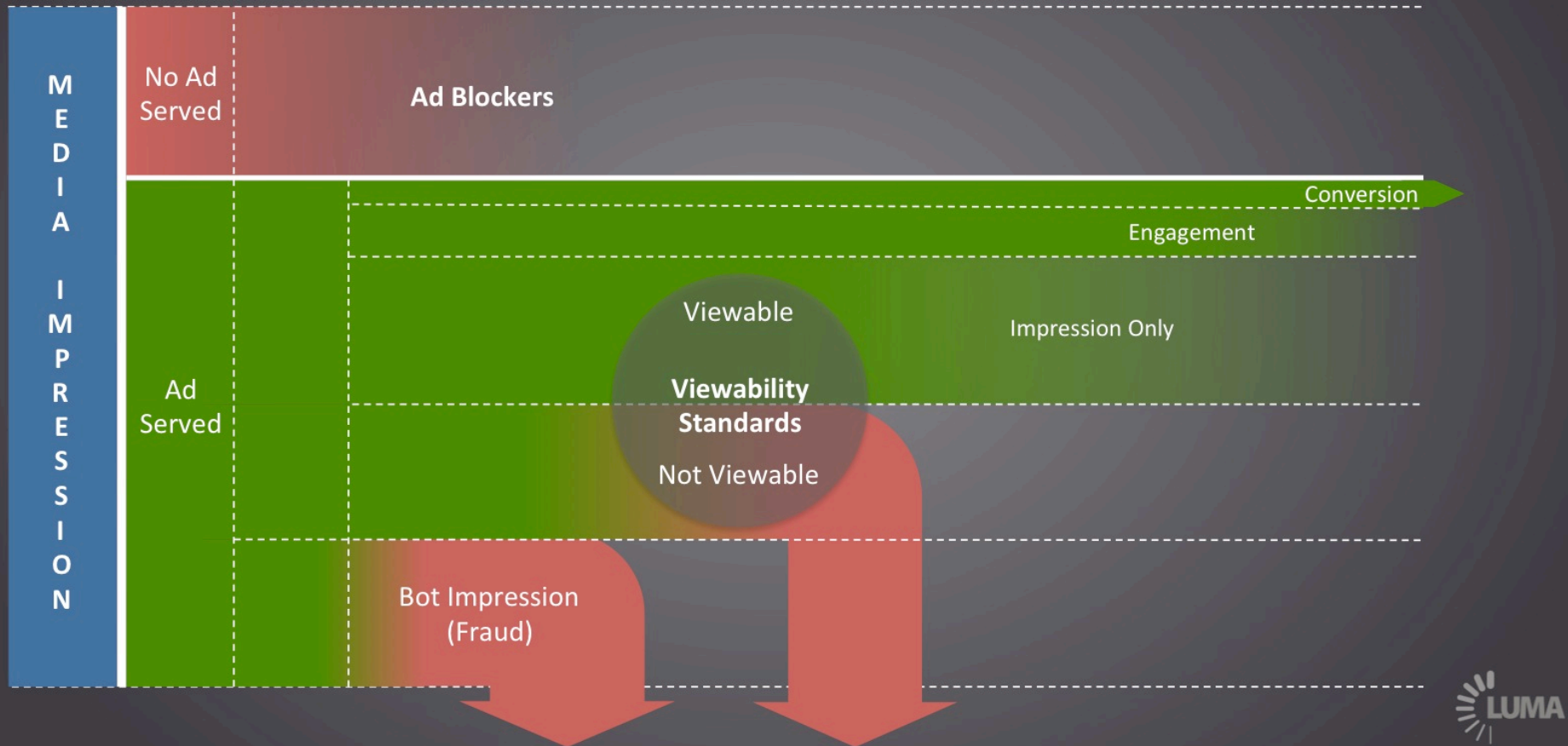


Lifecycle of a Media Impression

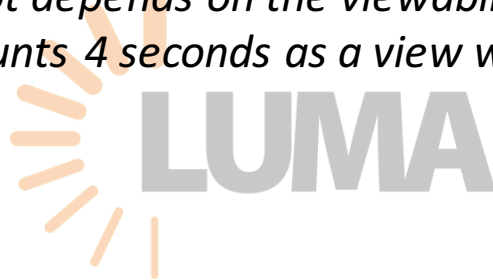


To assess the impact of Viewability, Fraud and Ad Blocking, consider the lifecycle of a media impression. Every load of a web page or video creates an ad opportunity (denoted in blue). However, ad blocking (now estimated at 22% in North America) prevents ads from being served to a person (a “consumer” in our nomenclature). Of the ads served, some are seen by bots (machines that record fraudulent impressions) and another portion is delivered to humans but not seen.

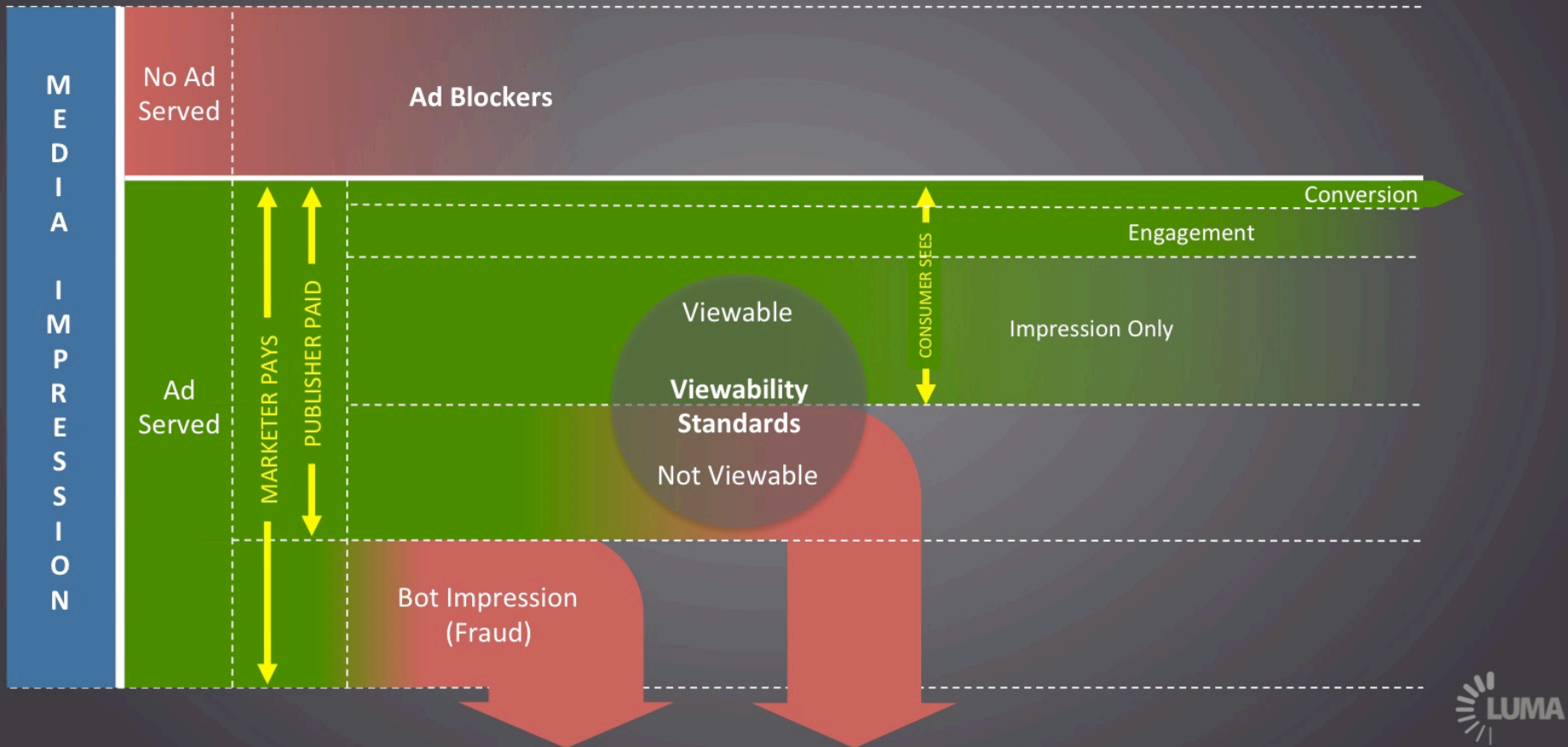
Lifecycle of a Media Impression



Whether an ad is “viewable” or not depends on the viewability standards that vary by platform. For example, in video, YouTube counts 4 seconds as a view whereas Facebook is 3 seconds and Snapchat one second.

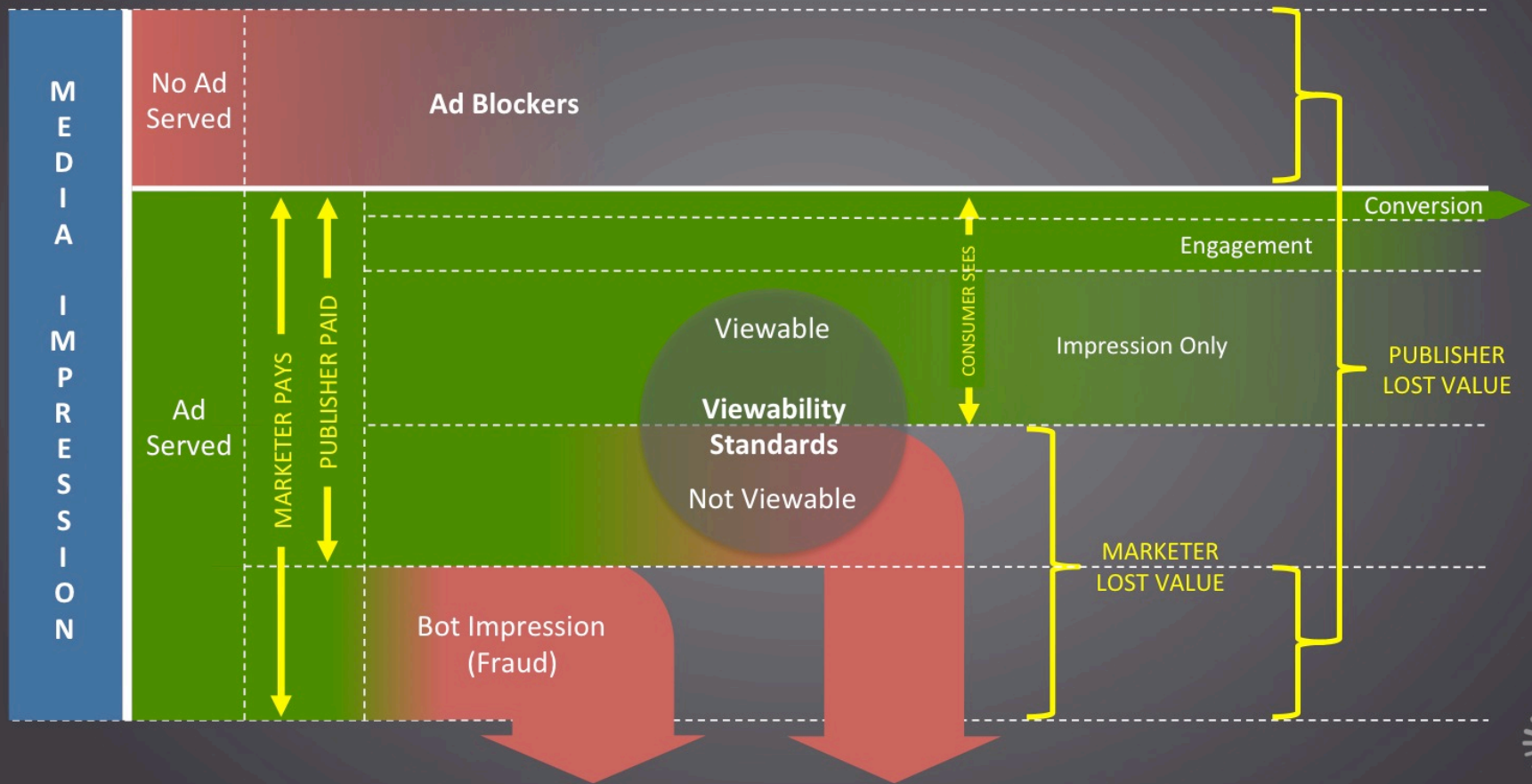


Lifecycle of a Media Impression



Of the ads actually viewed, a small portion of these instigates engagement by consumers and an even smaller portion results in a conversion to a purchase. These last two elements are primarily relevant for direct response advertising (demand fulfillment) whereas brand advertising's objective is to help build demand generation or preference over time and may benefit from an impression alone.

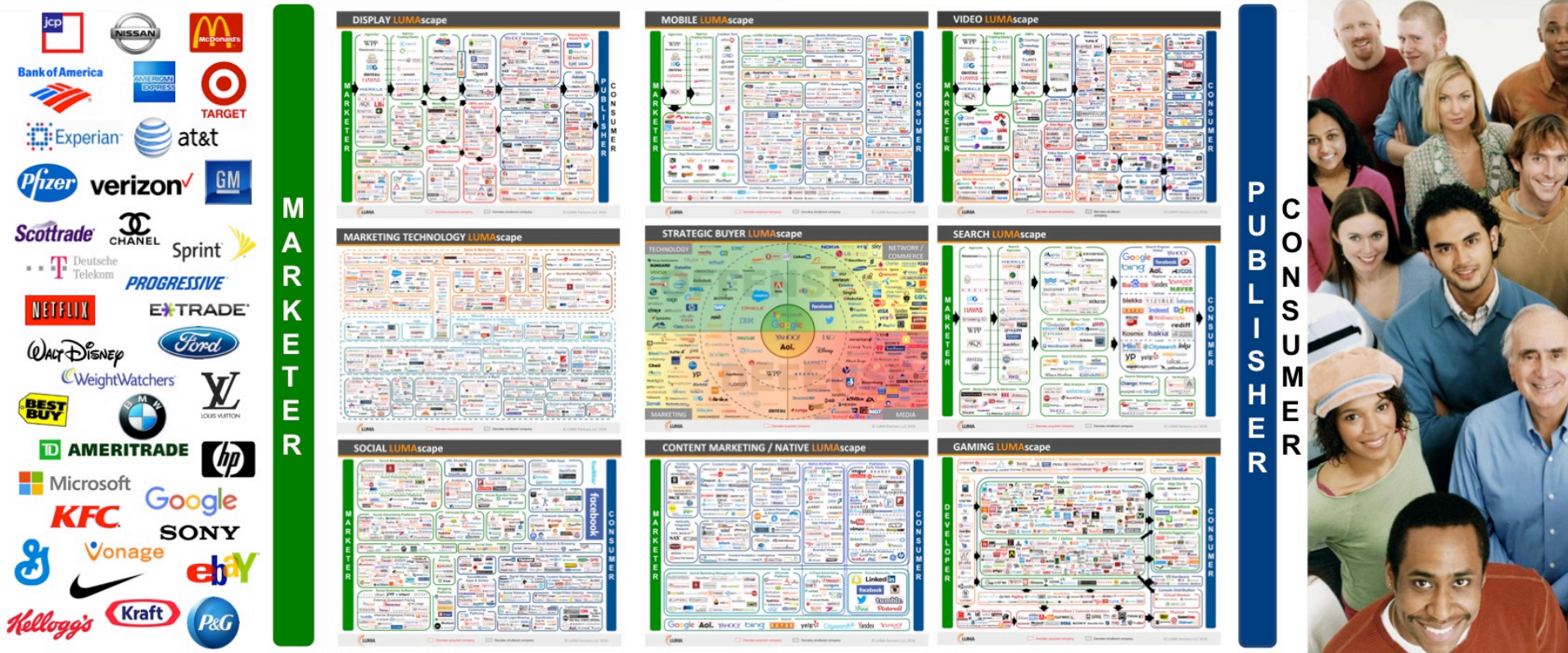
Lifecycle of a Media Impression



If you analyze these issues from an economic perspective, there is significant value leakage. Marketers' "lost value" is the sum of fraud and non-viewable impressions. In both instances they paid for an ad that was never seen by a potential consumer. Publishers on the other hand lose value from both fraud and ad blocking. Needless to say, this is too much leakage for a supply chain in such an important and growing market!

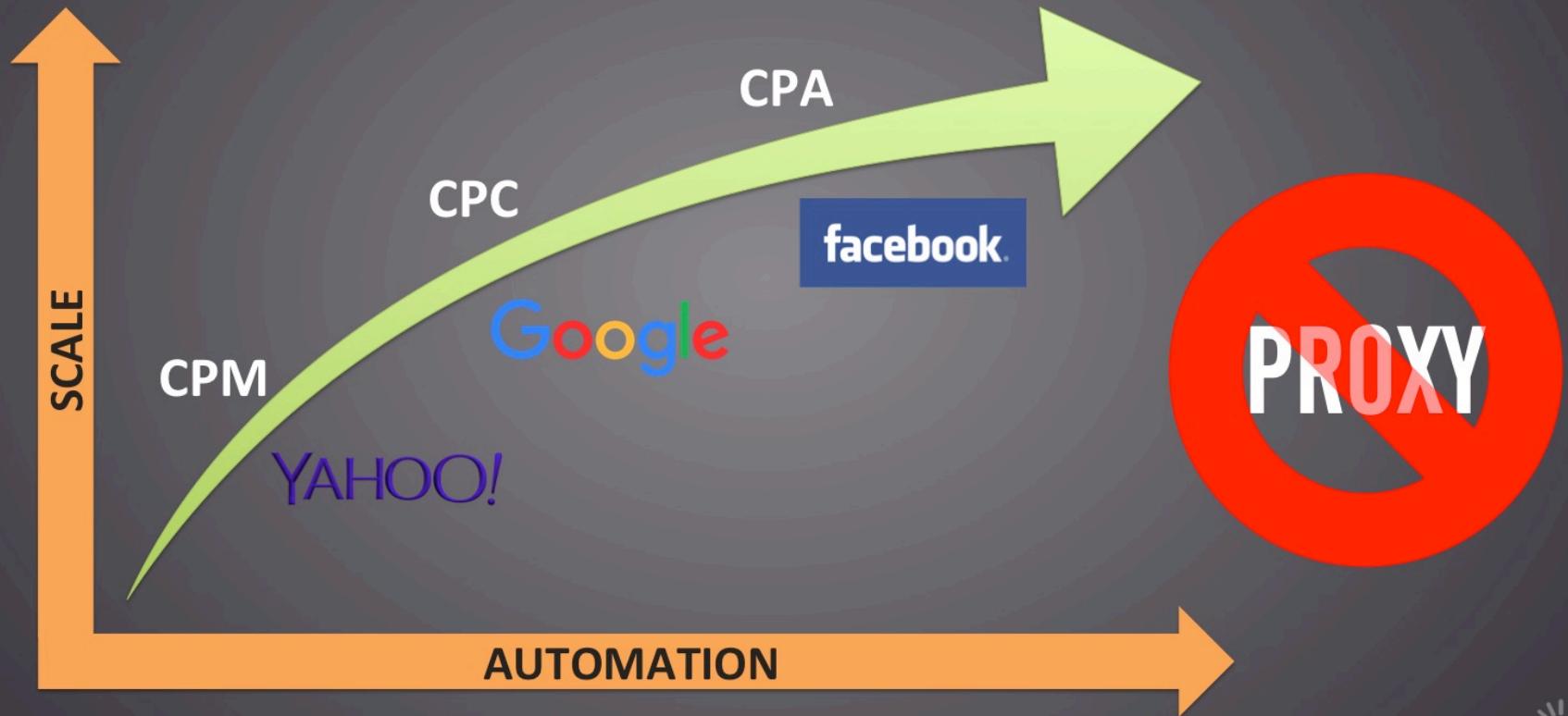
Fragmented Supply Chain Between Principals

META LUMAscape



While we don't purport to have answers to all of these issues, we would suggest that whatever solutions applied be done so with consideration of the two principals of the marketing equation: the marketer and the consumer. On ad blocking in particular, we believe that the best way to prevent further proliferation of such software downloads is to create a better consumer experience. While we sympathize with the publishers' predicament and value the economic construct that supports journalism, forcing the consumers' hand with draconian measures is not the way to go. Consumer choice is here to stay!

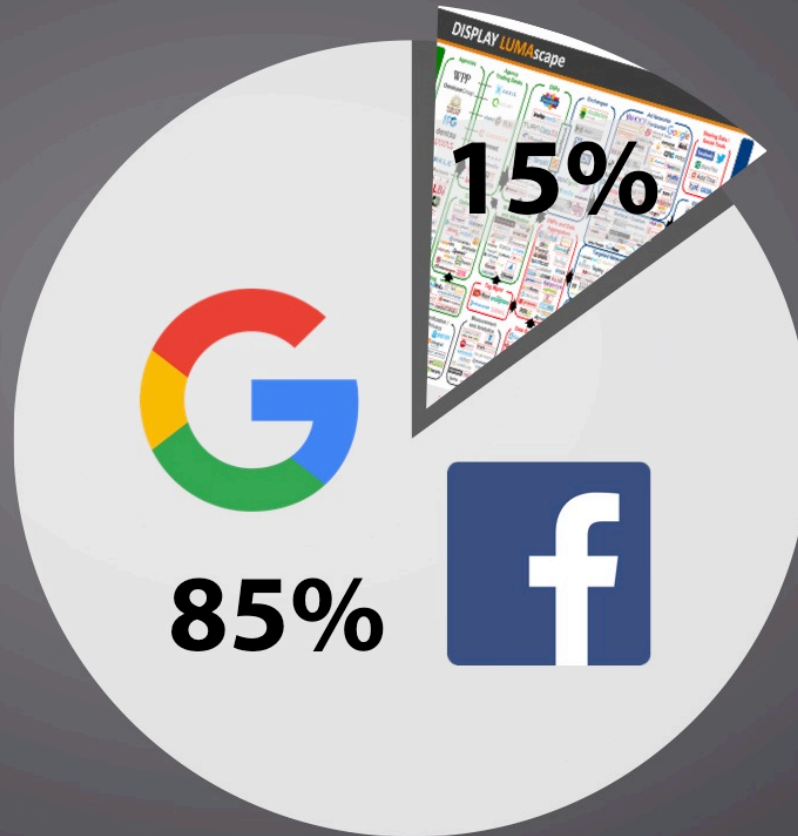
Performance Advertising Mitigates Issues



The trend towards performance metrics in advertising serves to mitigate some of these issues. When marketers are paying for business outcomes and not proxies like impressions, it alleviates many ills from measurement to fraud. If the marketer is not paying based on impressions, it's irrelevant that impressions are not seen. This is a natural and healthy trend for both marketers and consumers. It's no wonder the companies that deploy these models have seen higher rates of growth.

The Digital Duopoly is Challenging for the Rest

**85% OF
INCREMENTAL
DIGITAL
AD SPEND
GOES TO
GOOGLE OR
FACEBOOK**



Source: Morgan Stanley

The Walled Garden issue relates to the growing digital duopoly enjoyed by Google and Facebook. A recent analyst report suggests that their combined share of all incremental ad spend has exceeded 85%, a frightening figure for the thousands of companies vying for the remainder. We would call this issue existential! This dominance has helped fuel above market revenue growth. And the financial market has rewarded this growth: Google's and Facebook's market caps have increased \$250 billion in the last year alone!

DISPLAY LUMAscape



Finally there's the paramount issue of fragmentation, a condition that is unsustainable for both the principals and intermediaries. Marketers and publishers struggle with the complexity caused by the myriad of point solutions on the LUMAscape. For the intermediaries, it's a constant challenge to differentiate and grow with so much competition, which has led to a pull back in venture funding. To vary into another analogy, Winter is here! The obvious solution is industry consolidation, and LUMA is doing all it can to help out in this regard!



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LUMA has recently launched the LUMA Institute, the division that incorporates our research, content and events initiatives. The mission of the LUMA Institute is to provide education, insights and support to all constituents of the digital ecosystem. We partner with media, marketing and technology companies to provide advice and education at leadership off-sites and customer events on a customized basis. If LUMA can help your organization sort through this complicated and dynamic sector, contact Gayle Meyers at gayle@lumapartners.com.