

DISRUPTION BY THE NUMBERS

Conor McKenna
Vice President



The growth of digital media has created tremendous opportunities for publishers to reach and monetize audiences across the web. However, the industry's obsession with scale has brought challenges, such as platform vulnerability and not knowing their audience, leading publishers to rethink what it takes to thrive in an increasingly competitive battle for consumer attention and marketer wallets. In "Disruption by the Numbers", we dive deep into the challenges, opportunities, and trends impacting digital publishers today.



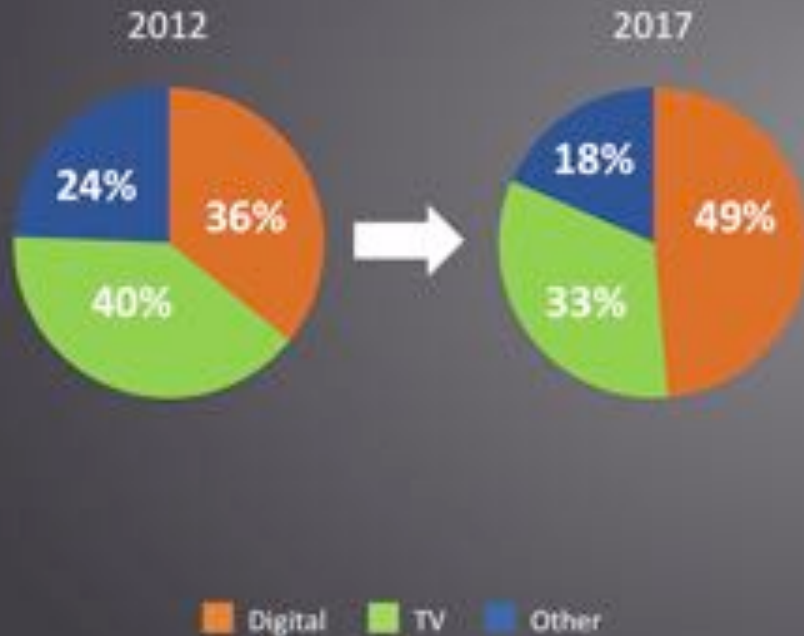
ECOSYSTEM CONSIDERATIONS



Digital Media Continues its Rapid Growth

Usage

Time Spent Across Media in U.S.

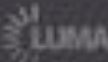
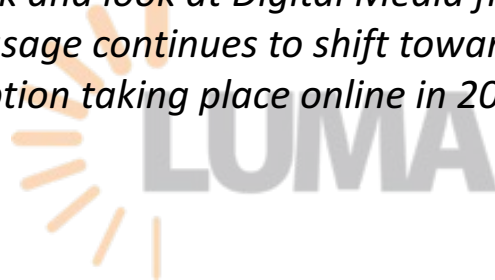


Monetization

Total Ad Spend in U.S.

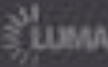


When you pull back and look at Digital Media from a macro level, things are going great! Consumer usage continues to shift towards digital channels, with nearly half of all media consumption taking place online in 2017, and advertising spend continues to grow.

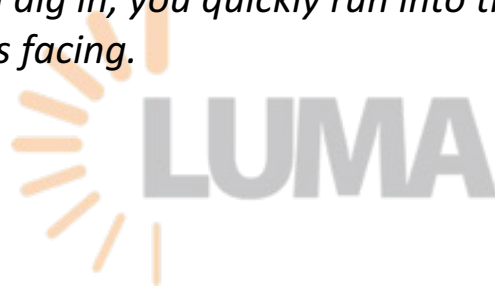


Digital Media Challenges

1. Privacy (GDPR)
2. Measurement
3. Viewability
4. Fraud
5. Adverse Context
6. Transparency
7. Fragmentation
8. Digital Duopoly



However, once you dig in, you quickly run into the wide variety of challenges the digital media ecosystem is facing.



Digital Media Challenges

1. Privacy (GDPR)
2. Measurement
3. Viewability
4. Fraud
5. Adversarial Competition
6. Transparency
7. Fragmentation
8. Digital Duopoly

TRUST



While each of these challenges have their own nuances, the common issue between them is the issue of trust. Mark Pritchard, CMO of Procter & Gamble, has been on a rampage over the last 18 months. He's been on a tour for the last year talking about the challenges in the digital advertising ecosystem and it all really boils down to the lack of trust he has in this ecosystem.

Digital Media Challenges

1. Privacy (GDPR)
2. Measurement
3. Viewability
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8. Digital Duopoly



One challenge that is particularly damaging for publishers is fraud, as it has real, economic consequences.



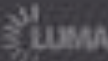
Domain Spoofing is Real and Destructive...



DIGIDAY **FT.com**
FINANCIAL TIMES

“The FT has estimated the value of fraudulent inventory masquerading as FT.com to be **\$1.3 million a month.**”

300 accounts were found selling inventory purporting to be the FT on 10-15 ad exchanges.”



As an example of just how destructive fraud can be, look no further than the Financial Times. In 2017, they ran an investigation into domain spoofing and found that \$1.3 million a month of fraudulent inventory was purporting to be FT.com, coming from over 300 accounts, on 10-15 different exchanges.



And Led to the Largest Case of Ad Fraud Ever

Methbot Impact

6,111


Premium
Domains Spoofed

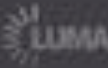
400M

Video Ad
Impressions per Day

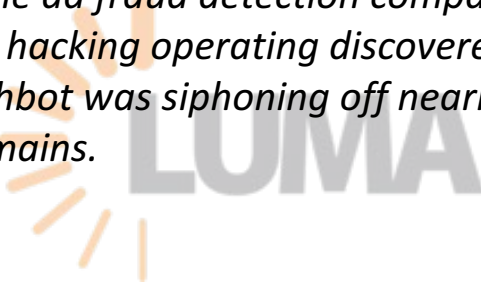
\$5M

Fraudulent
Revenue per Day

Source:  whiteops



On a macro level, the ad fraud detection company, WhiteOps, discovered “Methbot”, the most profitable hacking operating discovered to date, at the end of 2016. According to the WhiteOps, Methbot was siphoning off nearly \$5MM in fraudulent revenue a day from over 6000 domains.



And Drives Marketers to Pull Digital Spend

THE WALL STREET JOURNAL **\$200**
P&G Cuts More Than ~~\$100~~ Million in 'Largely
Ineffective' Digital Ads

Consumer product giant steers clear of 'bot' traffic and objectionable content
July 21, 2017 9:21 a.m. ET

**"We didn't see a reduction in
[P&G's] growth rate. The spending
we cut was largely ineffective."**

Jon Moeller, CFO, P&G

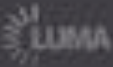


This is a serious problem, as not only are publishers losing revenue from their domains being spoofed, but now some marketers are limiting how much they are willing to spend online and aren't seeing any difference in their results. As an example, P&G saw no impact to their revenue growth after cutting nearly \$200MM in digital ad spend, as most of the additional spend was ineffective.



But Don't Panic...There's a Fix

**DON'T
PANIC**



Solutions: Industry Efforts + MarTech

Industry



Ads.txt



Viewability

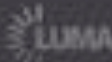
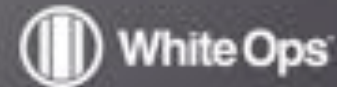


Verified

MarTech



MOAT



In response to the many issues in digital media, we've seen a range of solutions emerge, from both technology vendors and industry organizations. These solutions have primarily focused on fixing fraud, viewability and verification issues, to ensure marketers are getting what they paid for and re-establish trust in the ecosystem.

A Simple Text File Accessible to Any Publisher



Ads.txt

IMPLICATIONS

Publishers

Publishers have greater control over their inventory, weed out bad actors and increase revenue

Marketers

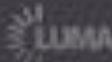
Marketer confidence grows with increased transparency, leading them to spend more and drive more sales



One of the latest and most exciting developments is Ads.txt, which came from the IAB Tech Lab. Like many great solutions, its power lies in its simplicity, as all that is required is a text file placed on a publisher's site which allows marketers and ecosystem partners to confirm the available inventory is from the actual publisher. Ads.txt has significant implications for both publishers and marketers.

The Impact is Undeniable

During a 15 minute test with Ads.txt, Business Insider found widespread fraud on its properties



Source: Domain Spoofing Costs Business Insider 10M Fake Impressions - in 15 Minutes, AdAge, October 30, 2017



An early proponent of Ads.txt, Business Insider, ran a test in October 2017 to show just how big of an impact Ads.txt has. Within a 15 minute time period, BI flagged between 10-30 million fraudulent impressions. For context, BI only sees about 10-25 million impressions a day.



It's Early Days...But Adoption is Rapidly Growing

DIGIDAY

'It can be good to have a big stick': Thanks to Google, ads.txt is taking off

NOVEMBER 4, 2017 | Bill Buzze

TOTAL NUMBER OF SITES U
OF WEBSITES WITH AN ADS.TXT FILE, MEASURED

TES WITH ADS.TXT

IN ADS.TXT FILE, MEASURED BY PIXELATE, SEPT.-DEC., 2017.

AMOBEE

Amobee Launches ads.txt Across Platform

November 20, 2017 | Amobee



AdAge

MEDIAMATH ADOPTS ADS.TXT, BUT THE AD FRAUD WAR IS FAR FROM WON

By George Bell, Published on October 16, 2017.

dataxu

Ensuring quality: Ads.txt and beyond

December 11, 2017 | 2017 DIGITAL MARKETING PROGRAMMATIC MARKETING QUALITY



Nasdaq
The Trade Desk Implements Ads.txt to Further Ensure Marketplace Quality

November 28, 2017 (October 17) | Source: The Trade Desk, Inc.

Source: 2017 Ads.txt Trends Report, Pixelate, December 21, 2017



While Ads.txt is still early, we've seen adoption sky rocket over the last few months, as not only publishers and marketers got on board, but also the large ad tech players.



Digital Media Challenges

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8. Digital Duopoly



The Duopoly is Taking Nearly All of the Growth

U.S. Digital Ad Spend



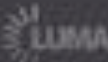
U.S. Incremental Ad Spend



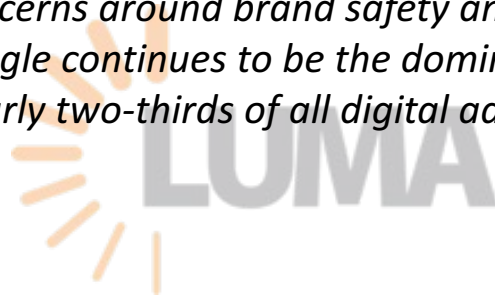
Share %

	35%	39%	40%	41%	40%	42%	43%	43%	42%
	0%	4%	5%	6%	7%	11%	14%	19%	23%
Total %	35%	43%	45%	47%	47%	52%	55%	60%	65%

Source: eMarketer, IAB, Company Filings, LUMA
*Google Advertising Revenue reflects Advertising Revenue Ex-TAC



Despite recent concerns around brand safety and data usage, the Digital Duopoly of Facebook and Google continues to be the dominant force in digital advertising, accounting for nearly two-thirds of all digital ad spend and taking nearly all the growth.



Key Capabilities Driving The Duopoly



Scale & Persistence

- Each possess over a billion users across various platforms, who use their platforms on a regular, if not daily basis
- Their user base is spread across mobile and desktop and consume various forms of content, including video

First-Party Data

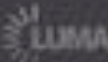
- Each possess first-party identity data from billions of logged-in users
- Each capture valuable demographic, location, interests, and intent data
- Google stands out with significant intent data from search

Programmatic Tech

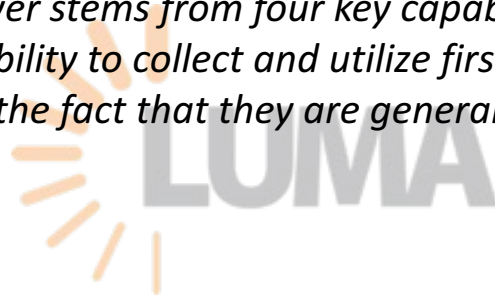
- Enable rich targeting and automation across different platforms and ad formats
- Enable programmatic advertising on and off O&O properties at scale

Safety / Premium

- Google and Facebook properties are well-lit environments for advertisers
- Advertisers are flocking to premium inventory as the ecosystem deals with fraud, ad blocking, and viewability issues



The Duopoly's power stems from four key capabilities – the scale and persistence of their users, their ability to collect and utilize first-party data, their programmatic technologies, and the fact that they are generally viewed as safe, well-lit environments for advertisers.



Key Capabilities Driving The Duopoly



**FREE
CONTENT!**

platforms, who use

and consume

users

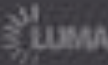
ent

ad

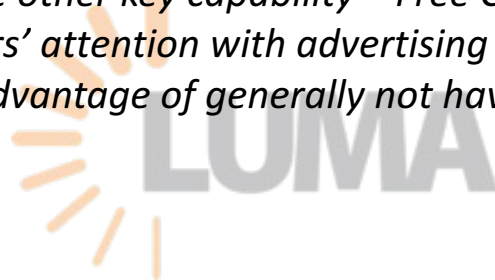
scale

ents for

the ecosystem deals



They also have one other key capability – Free Content! Unlike most other companies that monetize users' attention with advertising and subscriptions, Facebook and Google have the unique advantage of generally not having to pay for the content their users consume.





INDUSTRY TRENDS



CONTENT 2.0

VOX VICE BuzzFeed

AXIOS

Mashable
Life Today
BETTE DAILY

LUMA

Content 2.0 Was Supposed To Be All About Scale

WIRED

How BuzzFeed mastered social sharing to become a media giant for a new era

By DAVID ROMAN 02 Jun 2014

THE DRUM

Mashable sees record traffic audience in August with 45 million unique visitors

By Stephen Lee 01 September 2013 12:00pm

Inc.

Vox Media: From Sports Blog Hobby to Multimillion-Dollar Media Company

By Melissa Matthews

videoink

Media Company Mic Acquires Hyper to Scale Mobile Video Ops

By Videoink March 8, 2014

DIGIDAY

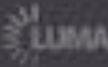
'Facebook is everything to us': How Little Things grew to 50 million users in under three years

By Digiday 11 June 2013

Bloomberg

Vice's New Cable Network Is More Popular on YouTube Than TV

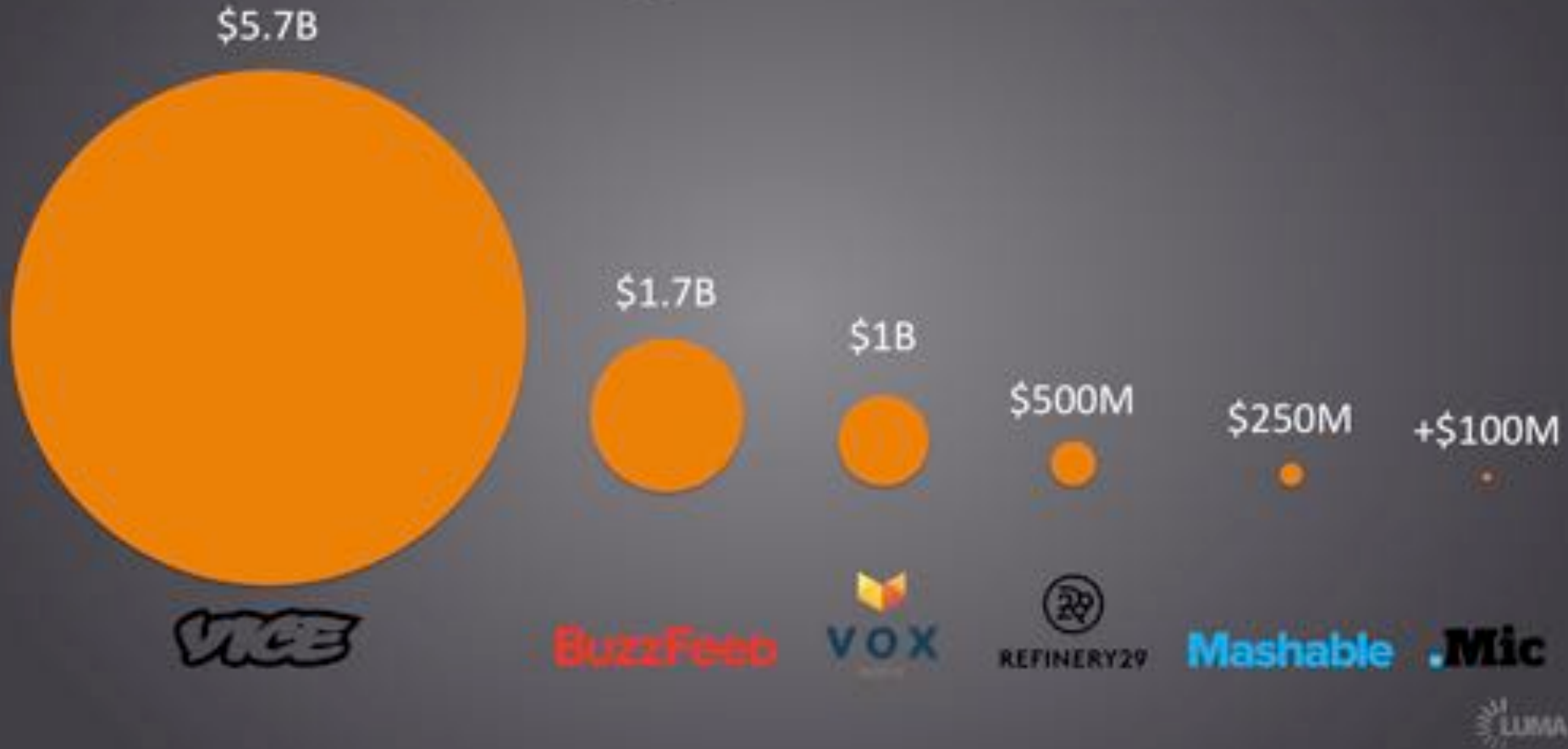
By Lucas Shaw May 21, 2014, 8:02 PM EDT



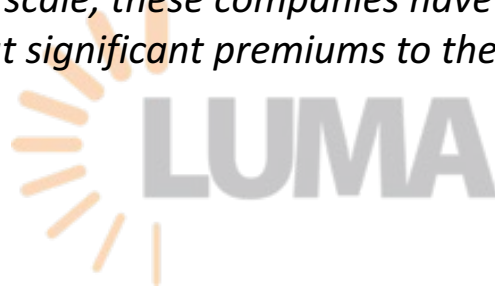
Over the last few years, we've seen a variety of "new" media companies rise up. These companies were built on technology and have touted their ability to achieve scale quickly.



And it Led to Soaring Valuations



As a result of their scale, these companies have been able to achieve massive valuations, often at significant premiums to their legacy media counterparts.



But Renting Users Created False Positives

WALL STREET JOURNAL
Marketers Say Facebook's News Feed Update Will Be 'Nail in the Coffin' for Organic Posts
By Laura O'Reilly and Suzanne Franks

BUSINESS INSIDER
Refinery29 is laying off staff, cites 'a correction in the digital media space'
Mike Shalhoub
© Dec. 14, 2017, 10:21 AM


NEW YORK POST
Buzzfeed's revenue to fall \$70M short of target
By Richard Mangano, November 16, 2017 | 10:08am

THE HILL
Vice Media misses 2017 revenue target by \$100 million: report
BY MICHELENA - @MICHENALAN

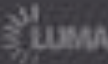
TE
LittleThings shuts down, a casualty of Facebook news feed change
FEBRUARY 27, 2018 by Lucia Rosen

ADWEEK
Ziff-Davis Will Reportedly Buy Mashable for Just \$50 Million
By Jason's post
November 16, 2017

NBC NEWS
Facebook's news feed changes are latest blow to publishers, brands
By ALYSSA NEWCOMB and CLAIRE ATKINSON



However, many of these "Content 2.0" companies did not own their scale, but rather achieved it through referrals (largely from Facebook and Google), which created false positives. As a result, when Facebook and Google made changes to their algorithms, it directly impacted many companies' revenues and left them either cutting staff, initiating a fire sale, or shutting down entirely.



The Duopoly's Recent Algorithm Changes



	2016	2017	2018
	Prioritized content from close friends	Prioritized authentic and timely content and long videos	Prioritized content from friends
	Prioritized live videos	Demoted "click-bait" and misleading content	Focused on trusted news sources
	Launched Reactions: emotions	Demoted links to low quality websites	Prioritized local news

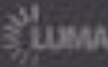
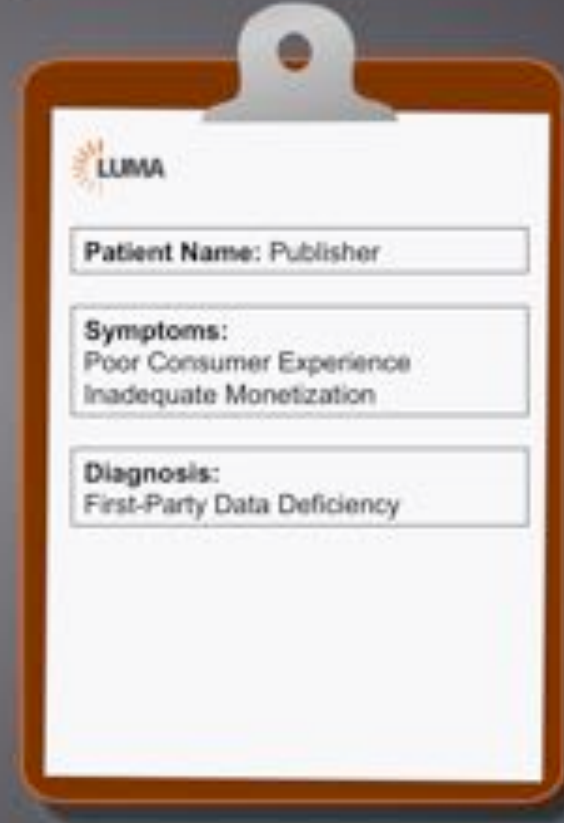


Penguin 4.0 - penalized bad links rather than entire sites	Demoted sites that prioritized monetization over UX
Prioritized mobile-friendly sites	Demoted sites with intrusive pop-up ads

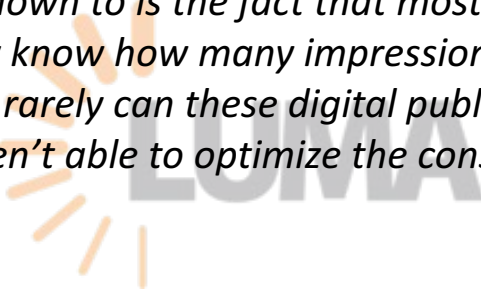


Algorithm changes are nothing new for the Duopoly. Over the last three years, they've collectively made over 10 changes that impacted publishers. While some of these changes actually benefited publishers, the most recent ones from Facebook were particularly damning. Either way, it's clear that publishers are not a primary concern, as the platforms are first and foremost focused on pleasing consumers and marketers.

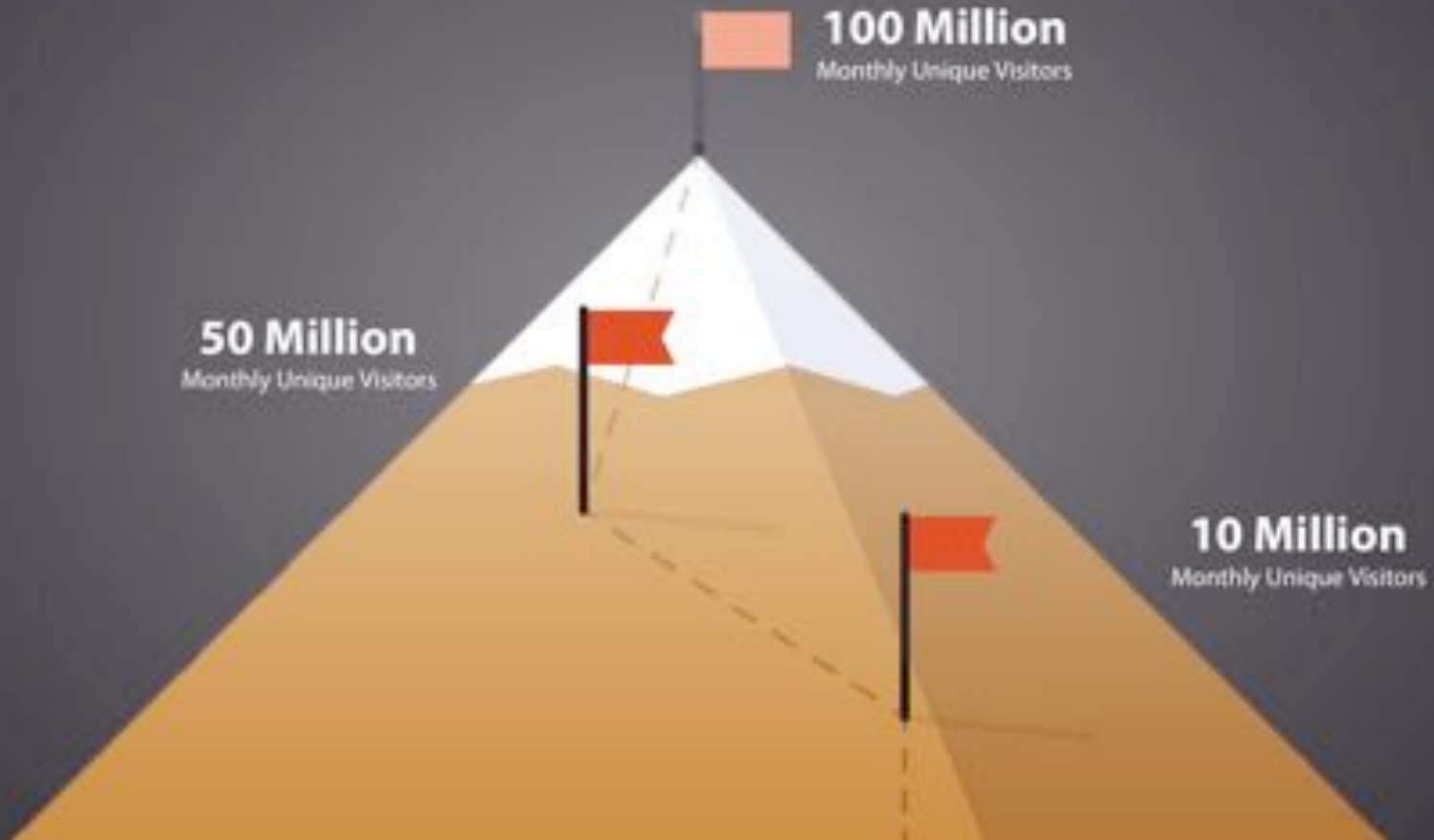
Publishers Have First-Party Data Deficiency



What this all boils down to is the fact that most digital publishers have a first-party data problem. They know how many impressions they have and may know how many unique visitors, but rarely can these digital publishers tie an impression to an individual. As a result, they aren't able to optimize the consumer experience or the monetization.

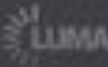
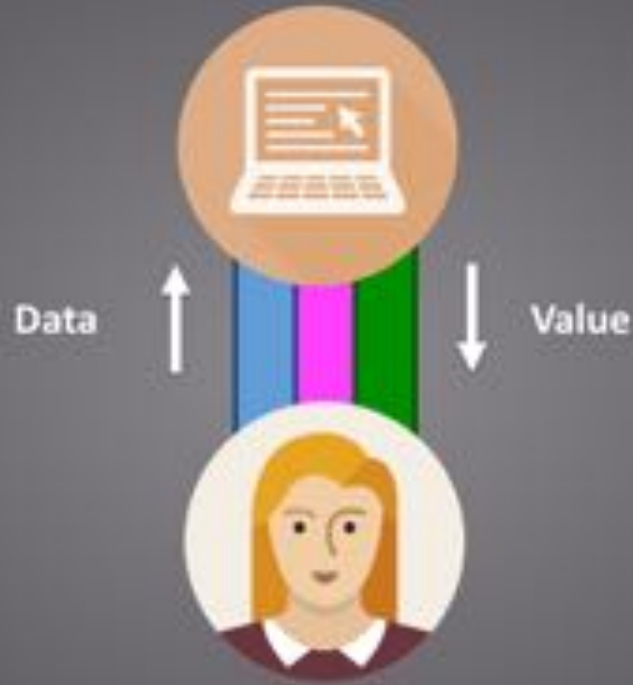


The Focus on Scale Only Compounded the Issue

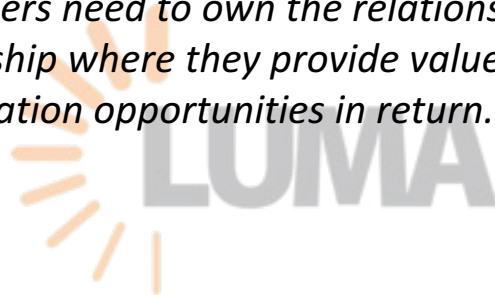


Publishers' incentive to focus on scale for higher valuations only compounded the issue of not knowing their users. Resources were allocated to achieve the next million users, rather than building a relationship with the users they already had. Once launched, this can be a tough ship to turn around, as it entails taking a hit to revenue in the near-term, with the hope of gaining control for the future.

Publishers Need to Own their Customers



Ultimately, publishers need to own the relationship with their customer, creating a symbiotic relationship where they provide value in the form of content and receive data, as well as monetization opportunities in return.



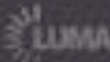
IDENTITY / CDP

NO 1

KNOW YOUR
AUDIENCE



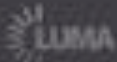
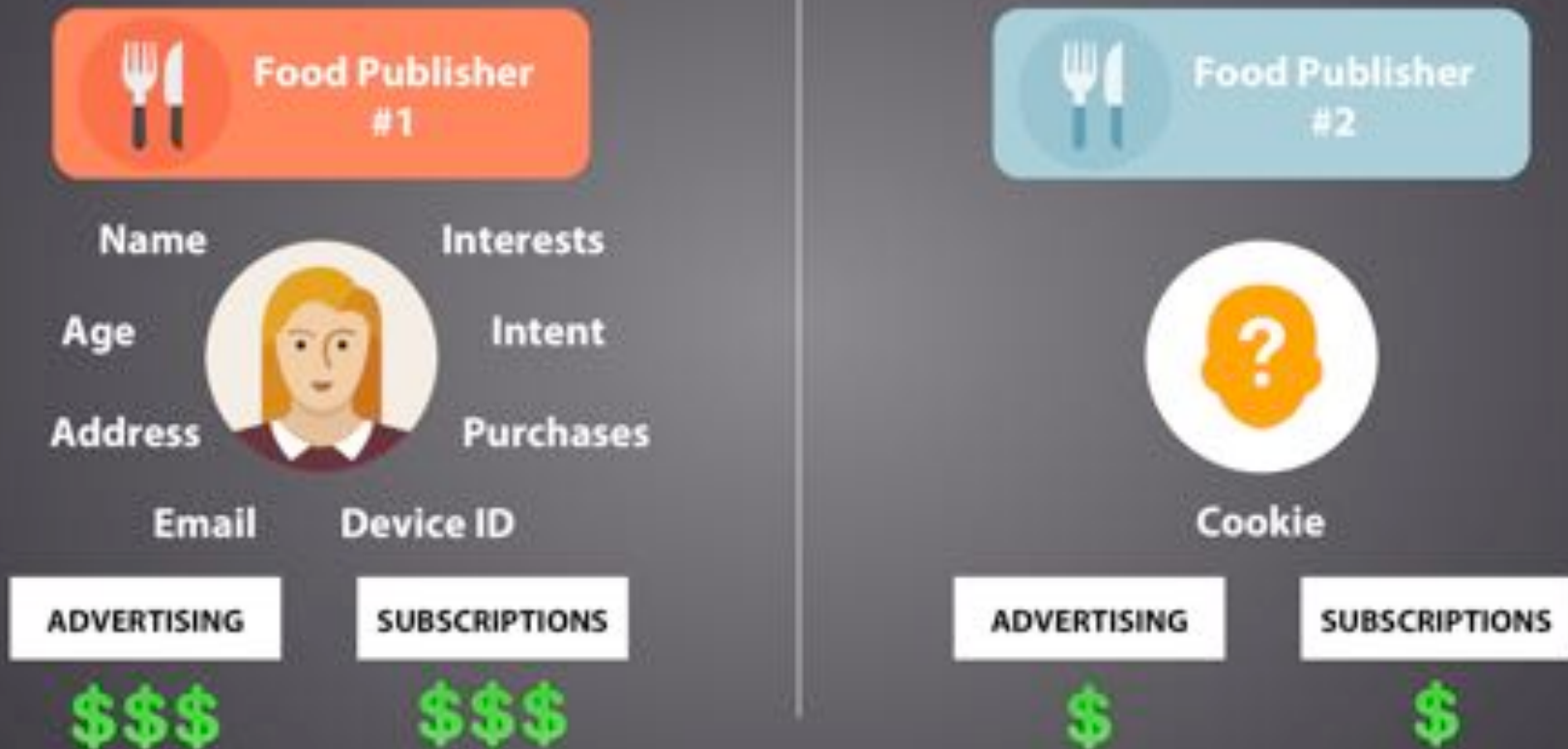
Publishers Struggle to Identify their Audience



One of the biggest problems publishers have with building a relationship to their consumers is that they often can't identify one user from another (besides cookies, which aren't effective for true identification). In general, publishers can only truly identify their most loyal users who may log in to their site, although this figure is typically below 5% of traffic. Therefore, they must treat all users effectively the same, providing the same user experience and monetizing them in similar ways.



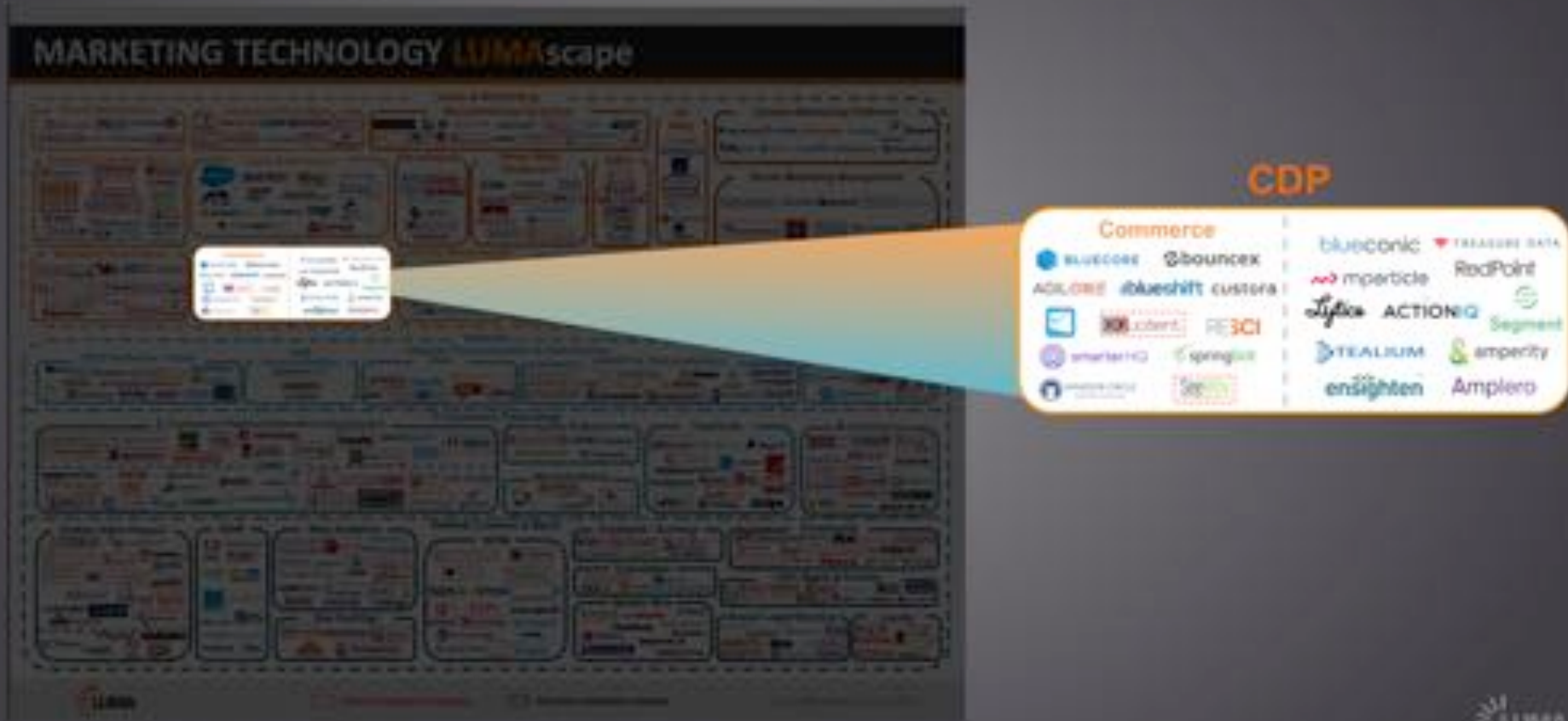
Greater Identification Enables Greater Monetization



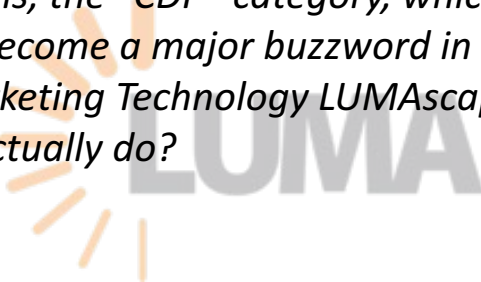
This lack of identification comes with significant opportunity cost. With better identity, publishers can provide far more effective advertising and command higher CPMs. Additionally, if subscriptions are part of the business, publishers can optimize the customer experience based on who to target for subscriptions and who to show ads to.



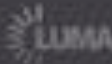
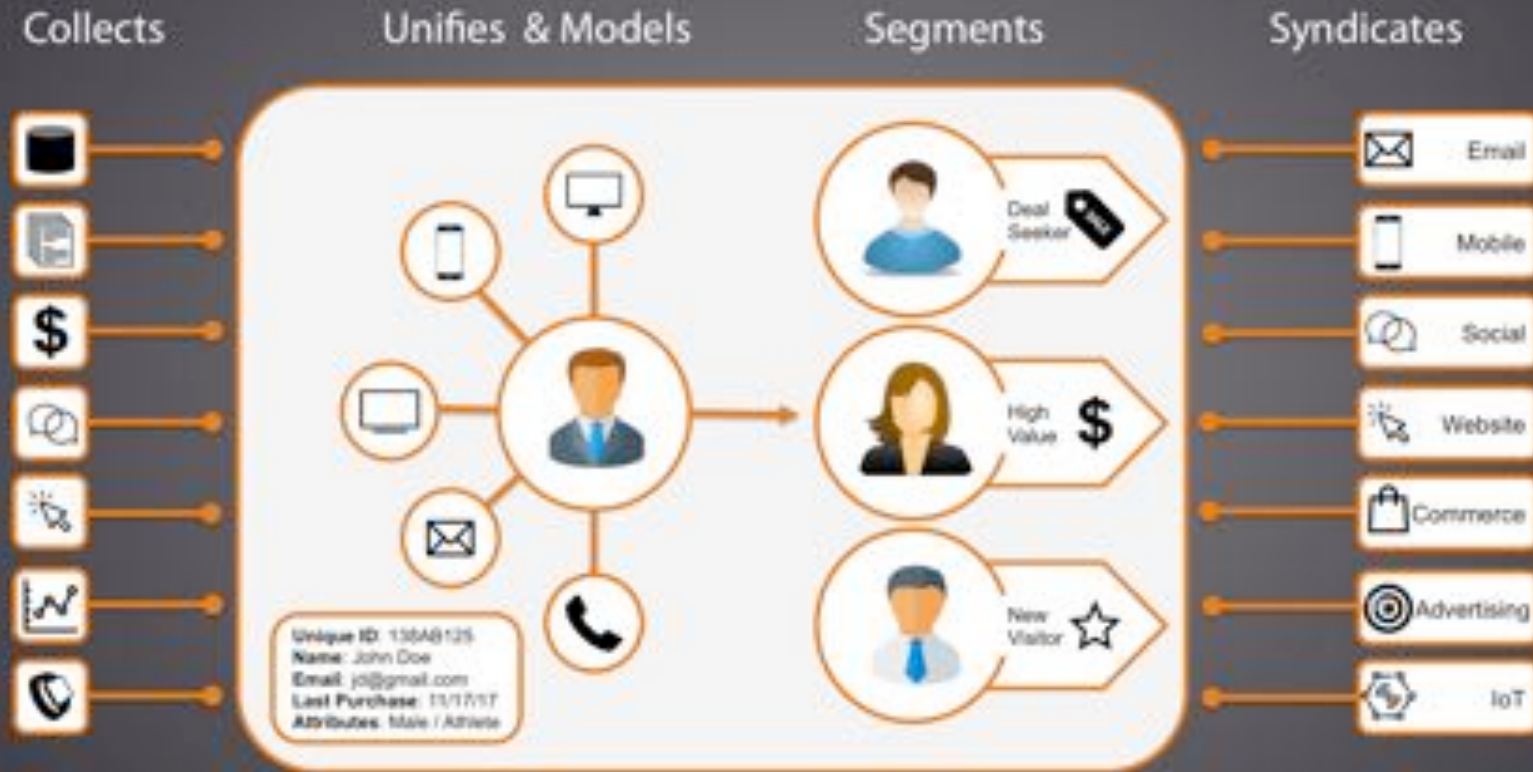
Introducing the CDP Category on the MarTech LS



In the last 18 months, the “CDP” category, which stands for “Customer Data Platforms”, has emerged and become a major buzzword in the marketing industry. So much so, that we revised our Marketing Technology LUMAscope last fall to reflect the category. But what does a CDP actually do?

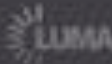
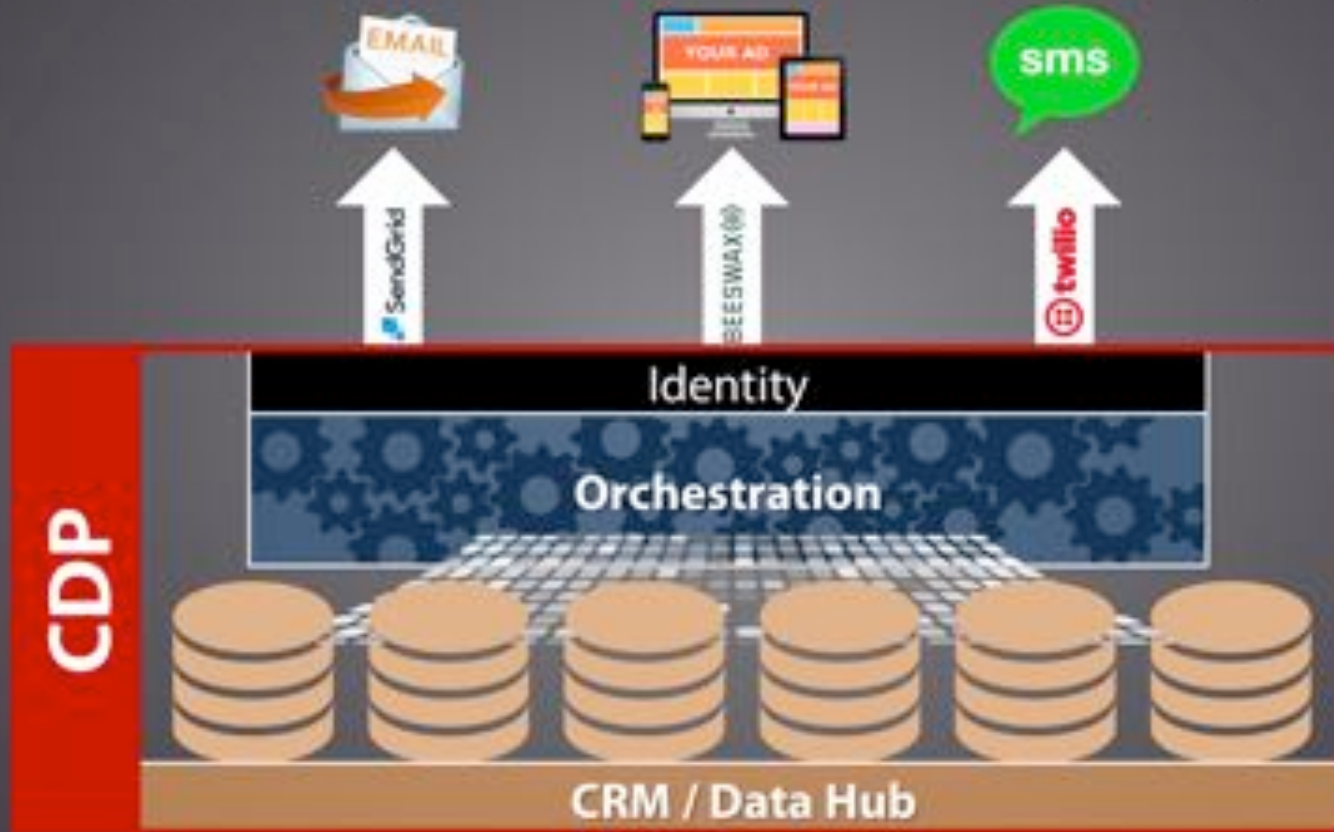


The Customer Data Platform



In general, the CDP has three main functions. First, it collects, normalizes and unifies data from a variety of systems such as email platforms, websites, mobile apps, call center logs, e-commerce systems, etc. Second, it applies intelligence to this data to segment users and determine the next best action, such as a product recommendation or offer. Finally, it syndicates the next action back to the execution platforms to enable the interaction with the consumer across touchpoints.

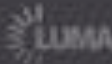
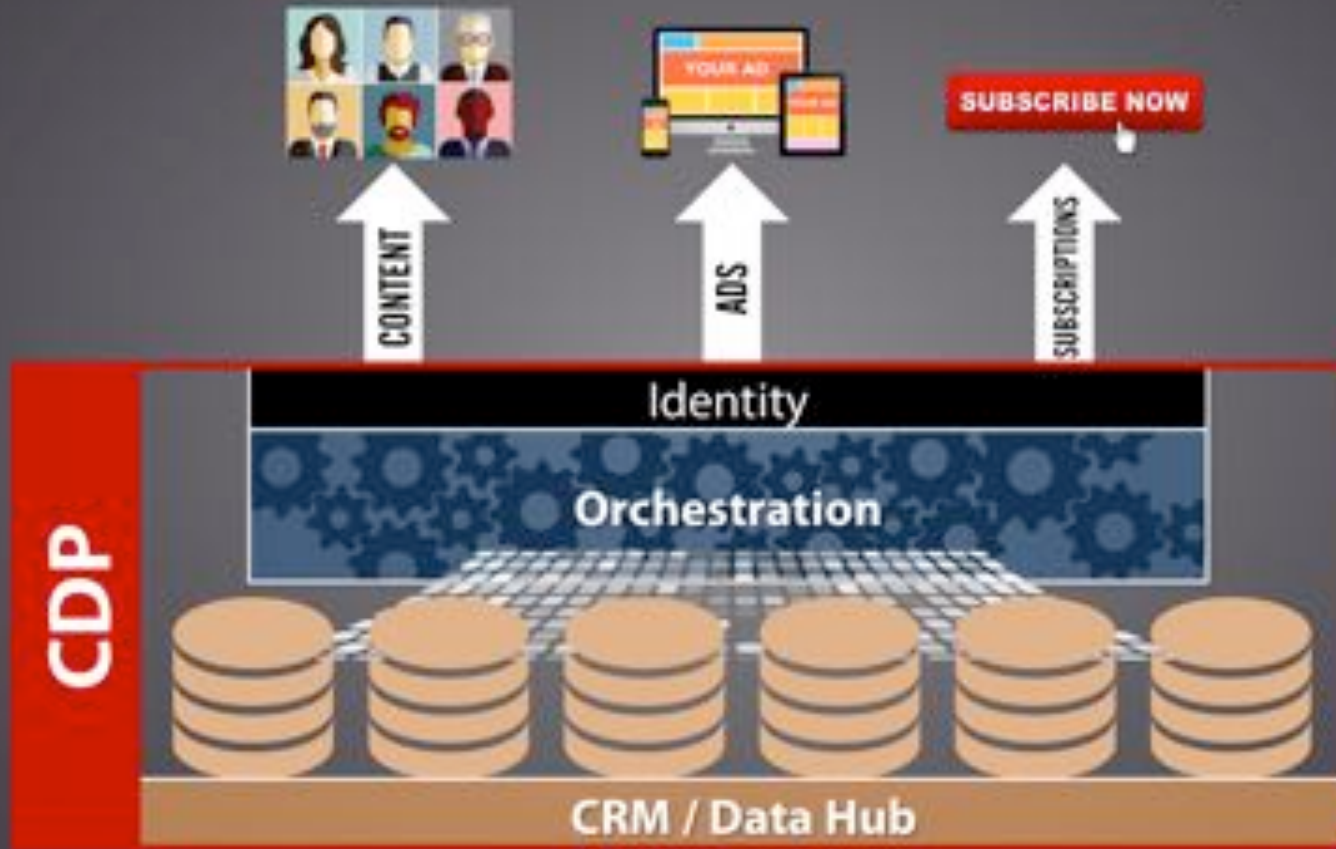
Marketing Orchestration: Data + Identity + A.I.



Therefore, for marketers a full-featured CDP pulls together the key capabilities that we feel are critical for marketing – “data”, “orchestration”, and “identity”.



Publisher Orchestration: Data + Identity + A.I.

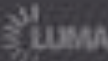


While most of the buzz about CDPs has been on the marketer side, we would contend, that these same capabilities are critical to solving publishers' problems. Publishers could use the CDP functionality to ingest data, identify and segment users on their site, and determine the best action for that user, such as serving tailored content, targeting them with specific types of ads, or pushing for a subscription.

VIDEO & CONVERGENT TV



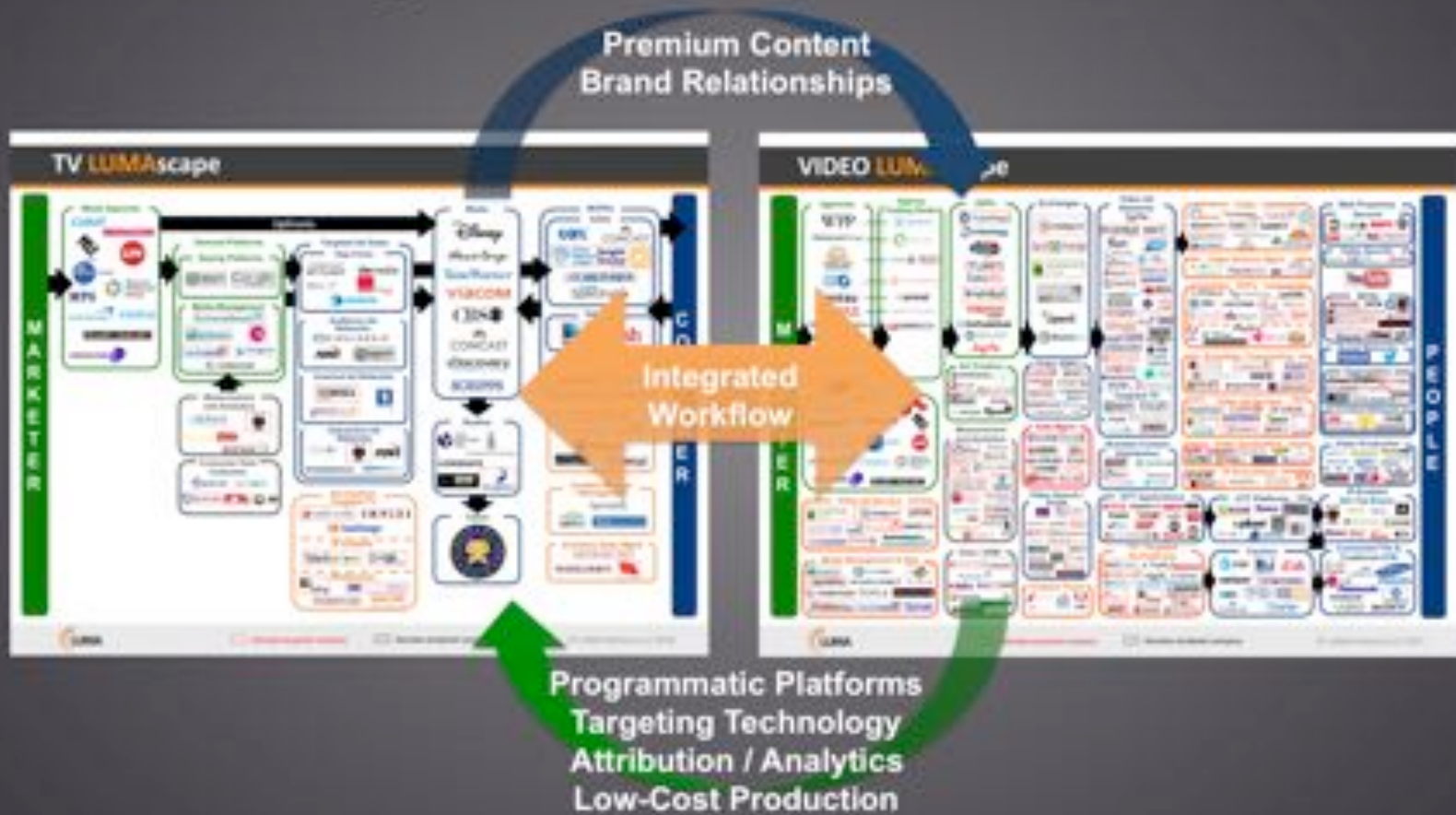
Pivot to Video



In the last few years, the term “pivot to video” has become a running joke in digital media. What started as a transition towards higher quality and higher value inventory, has become a desperate attempt to make up lost revenue from a shrinking user base.

That being said, there is still a massive opportunity in premium video.

But TV and Digital Convergence is Still Inevitable



The convergence of TV and digital video has become inevitable as these worlds continue to collide. Premium content is already pervasive across both worlds and is now indistinguishable in quality, leading consumers to interchange between them and marketers to begin spending heavily across both. While programmatic tech and integrated workflows have lagged, we expect these to continue to converge in the future.

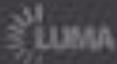


Power Shifts in a Totally Addressable World

U.S. Digital Ad Spend



U.S. TV Ad Spend

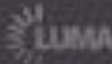
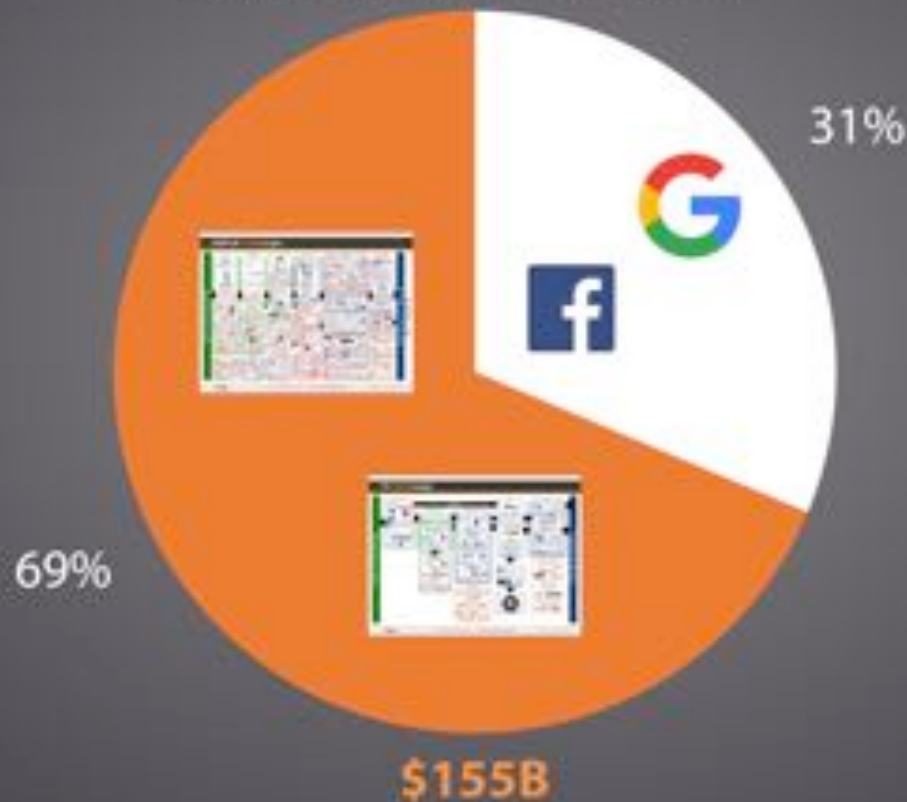


When thinking about convergent TV, it's important to recognize how it will impact power dynamics in a totally addressable world. As we stated earlier, Facebook and Google are clearly dominating the \$83 billion digital ecosystem, leaving the rest of the LUMAscape to fight over the remaining 37%. Yet they play a relatively small role in the \$76 billion TV advertising ecosystem, even if you included YouTube's presence in OTT.

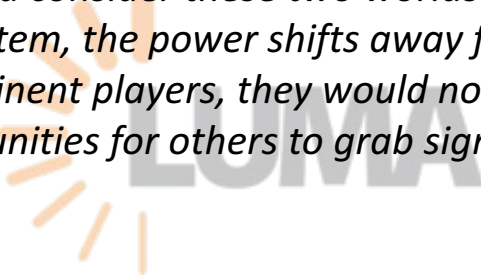


Power Shifts in a Totally Addressable World

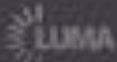
U.S. TV & Digital Ad Spend



Therefore, when you consider these two worlds combining into a \$155 billion addressable ecosystem, the power shifts away from Facebook and Google. While they would still be prominent players, they would no longer own over half the market, opening up opportunities for others to grab significant stakes.



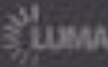
The Battle for the Future of TV is On



With so much at stake, it's no surprise that there is an intense battle for the future of TV. The new entrants, i.e. the digital giants, are taking an offensive approach to steal market share, leveraging content investments and better product experiences to fight their way in. Meanwhile, the incumbents, i.e. cable companies and MVPDs, are taking a defensive approach, relying on regulation to secure their footing in the marketplace and M&A to acquire the scale and capabilities necessary to play in this future.

Amazon and Netflix Outspent TV Networks

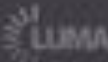
Estimated Content Spending in 2017



On the content investment front, Amazon and Netflix are leading the charge, outspending traditional TV networks in original content last year. We expect these digital powerhouses to continue to invest heavily in content as they have generated huge returns from these efforts and are producing high quality programming that is being recognized by viewers and industry watchers.



The Verticalization of Media

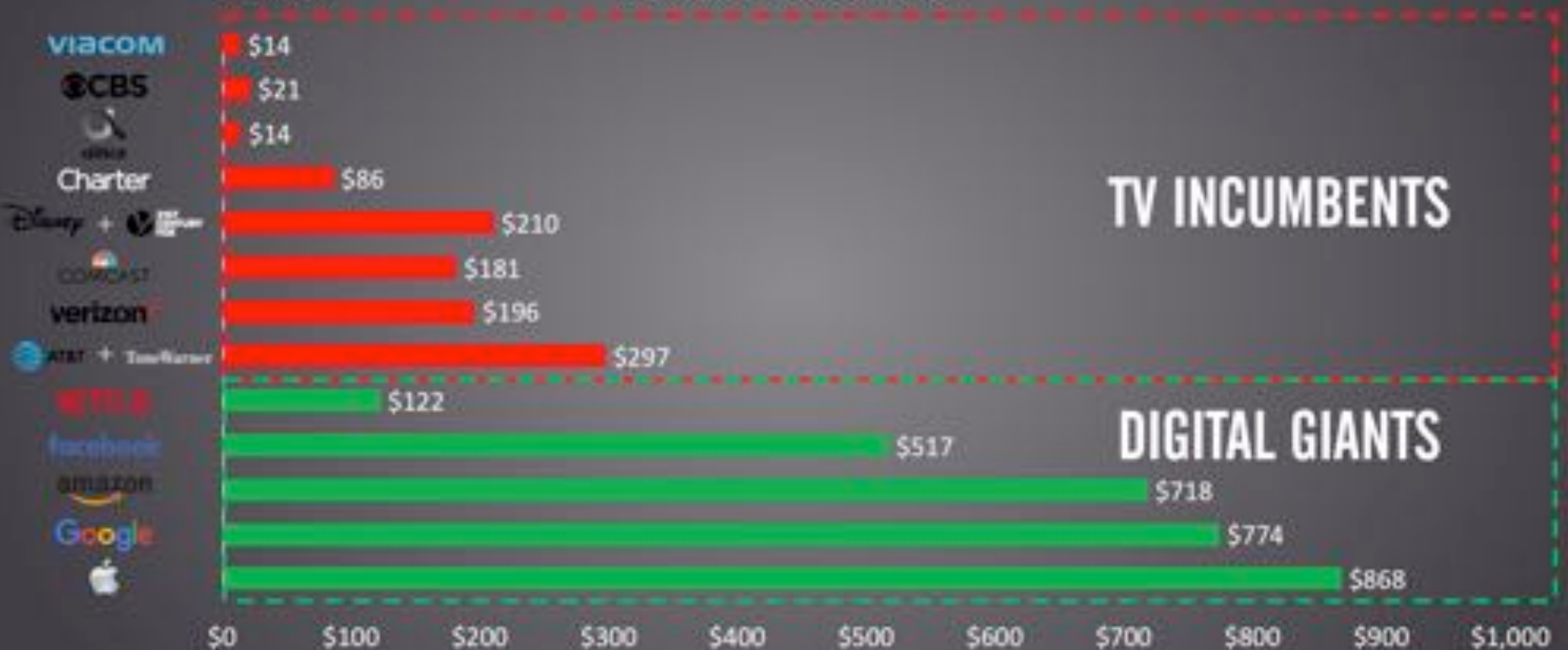


Despite being on the defense, linear distribution has been actively pursuing the “verticalization” of media, where distribution firms are acquiring content and monetization technology to control the entire business. Comcast, Verizon and AT&T have been the most active with this strategy as they try to capitalize on the large opportunity in front of them. While they have not been sitting on their hands, we suggest that they lack sufficient digital monetization, which should lead to more M&A.

And It's Not a Fair Fight

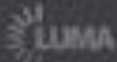
(\$ in billions)

Market Cap by Company



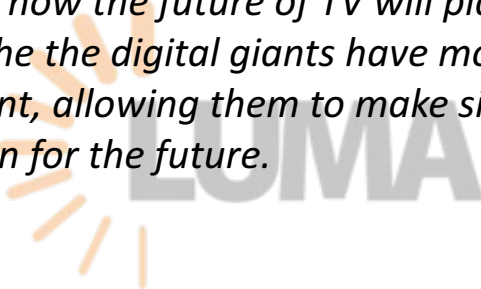
TV INCUMBENTS

DIGITAL GIANTS



Source: Capital IQ, market data as of 2/23/2018

While it's uncertain how the future of TV will play out, one thing that is clear – it's not a fair fight. Most of the the digital giants have more than double the market cap of the largest TV incumbent, allowing them to make significantly more and larger bets to ensure their position for the future.



CONTENT 3.0


the power of
brand

↓
growth

↓
sales

↓
customer

↓
awareness

↓
success



Hottest Digital Media Company Today?

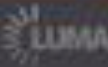
Digital subscription
revenue increased

46%

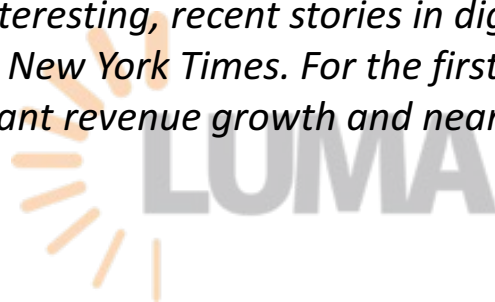
in 2017

The New York Times

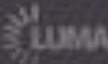
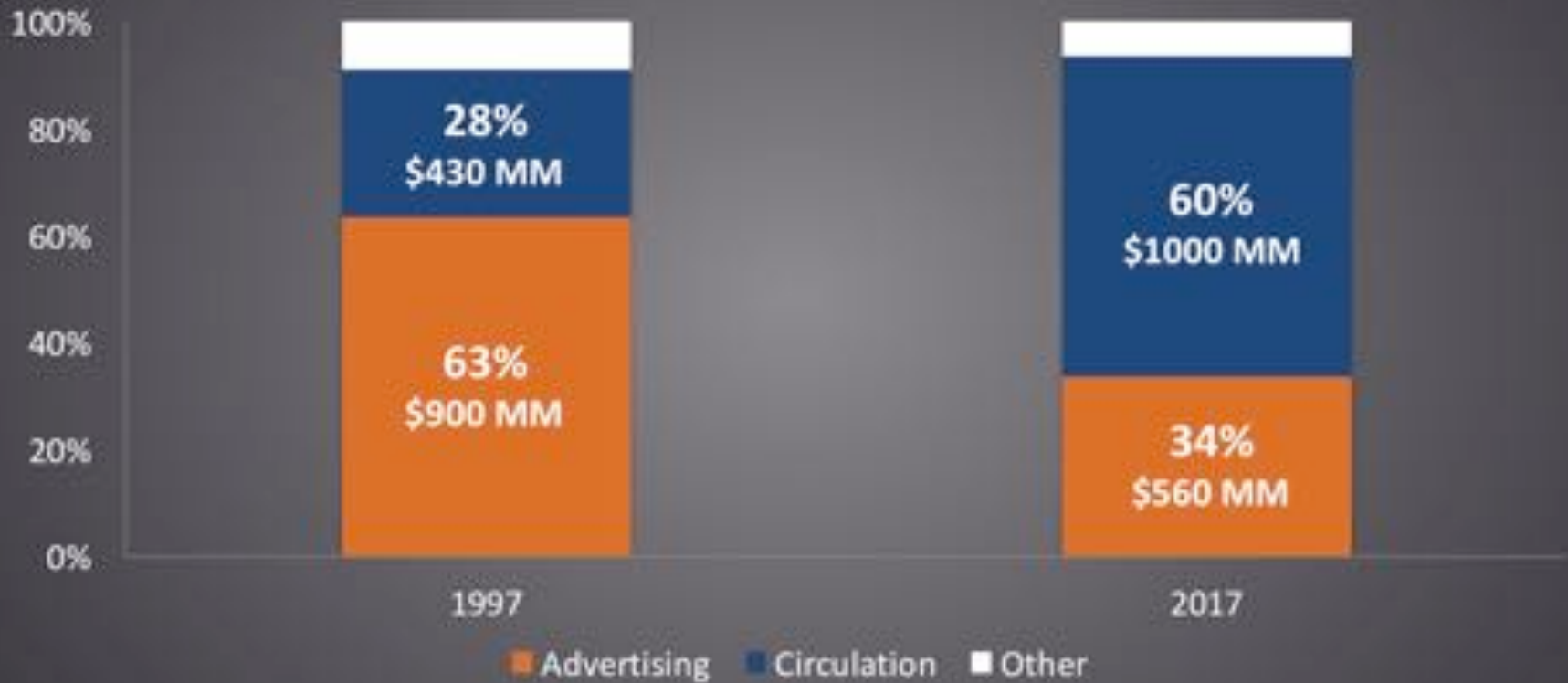
Plans to launch a
**weekly TV
program** in 2018



One of the most interesting, recent stories in digital media is the renewed success and momentum of The New York Times. For the first time in over a decade, The Gray Lady has posted significant revenue growth and nearly all of it was driven by digital.



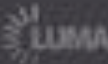
Switch From Predominantly Ads to Subscription



The New York Times has done something few have achieved, transforming itself from a predominantly advertising based-business to a predominantly subscription-based business. While there was certainly a lot of pain (and declining revenues) in the interim, the NYT is now back into growth mode.

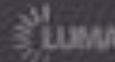
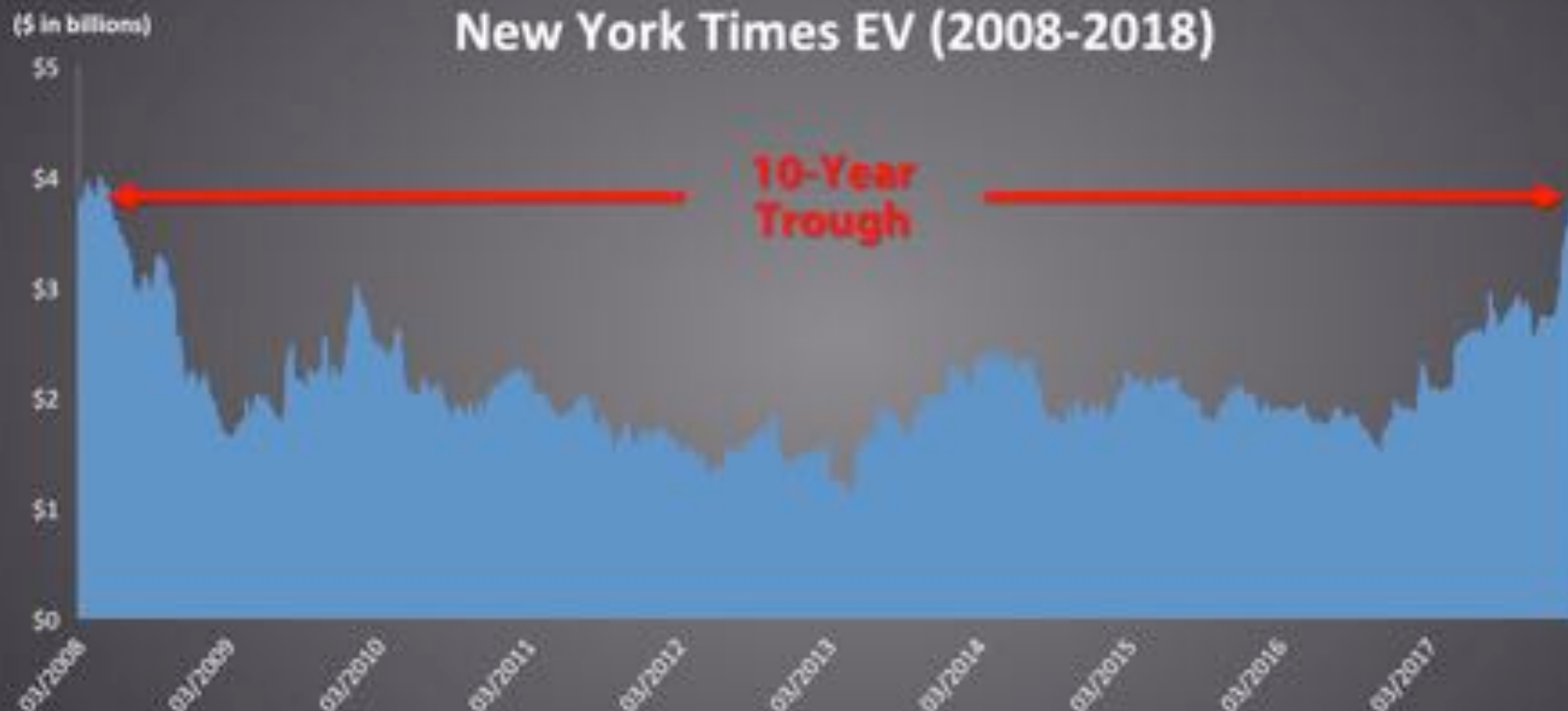


Rebalanced Priorities Between Brand and Scale



They were able to achieve this by rebalancing their priorities between brand and scale. With the advent of the internet, the NYT's circulation no longer commanded the advertising power it once did. However, their readership remained loyal. With this in mind, the NYT started enforcing stronger and stronger paywalls over the last few years, leveraging the power of their brand to push consumers to subscribe if they wanted NYT content.

And Reversed a 10-Year Valuation Trough



The strategy has paid off and The New York Times has not only started to grow revenue again, but has also reversed a ten-year valuation trough. Interestingly, in regaining their aggregate valuation, the NYT has also achieved much higher valuation multiples. Compared to 2008, The New York Times is trading at nearly double the valuation multiples, highlighting investors preference for sustainable and predictable business models.

Creating A Unique Brand Is Very Challenging

The New York Times



VICE

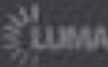
VOGUE

WSJ

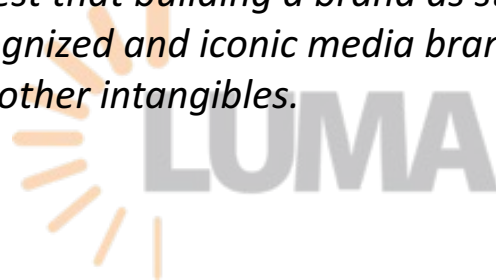
BUSINESS
INSIDER

BuzzFeed

THE
NEW YORKER



That's not to suggest that building a brand as strong as The New York Times is easy. It's not. The most recognized and iconic media brands were built from a unique voice, history, and many other intangibles.

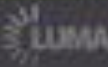


But Brands Are in Control of their Own Destiny



Referral Platforms

Programmatic Platforms



Yet having a strong brand is a very powerful asset, and one that should not be underestimated in digital media. A strong brand is less vulnerable to ecosystem changes. Whether there are algorithm updates by the major distribution platforms or shifts in the programmatic ecosystem, strong brands are able to direct their own course.



Brands Gain Unique Monetization Opportunities

MONETIZATION



ADVERTISING



SUBSCRIPTIONS



EVENTS



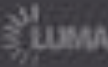
AFFILIATE



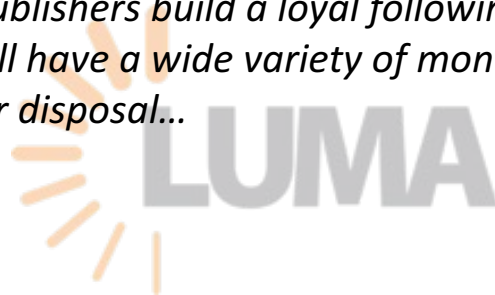
LEAD GEN



(enhanced with better identity)



Furthermore, as publishers build a loyal following and direct relationships with their audiences, they will have a wide variety of monetization opportunities beyond advertising at their disposal...

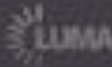


And Media / Distribution Opportunities

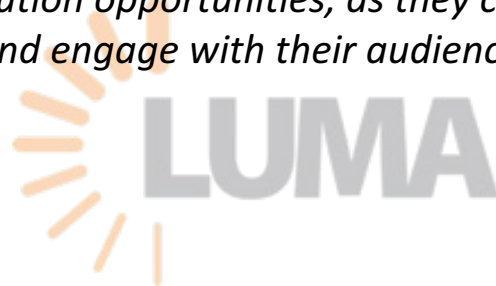
TV / OTT



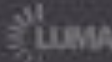
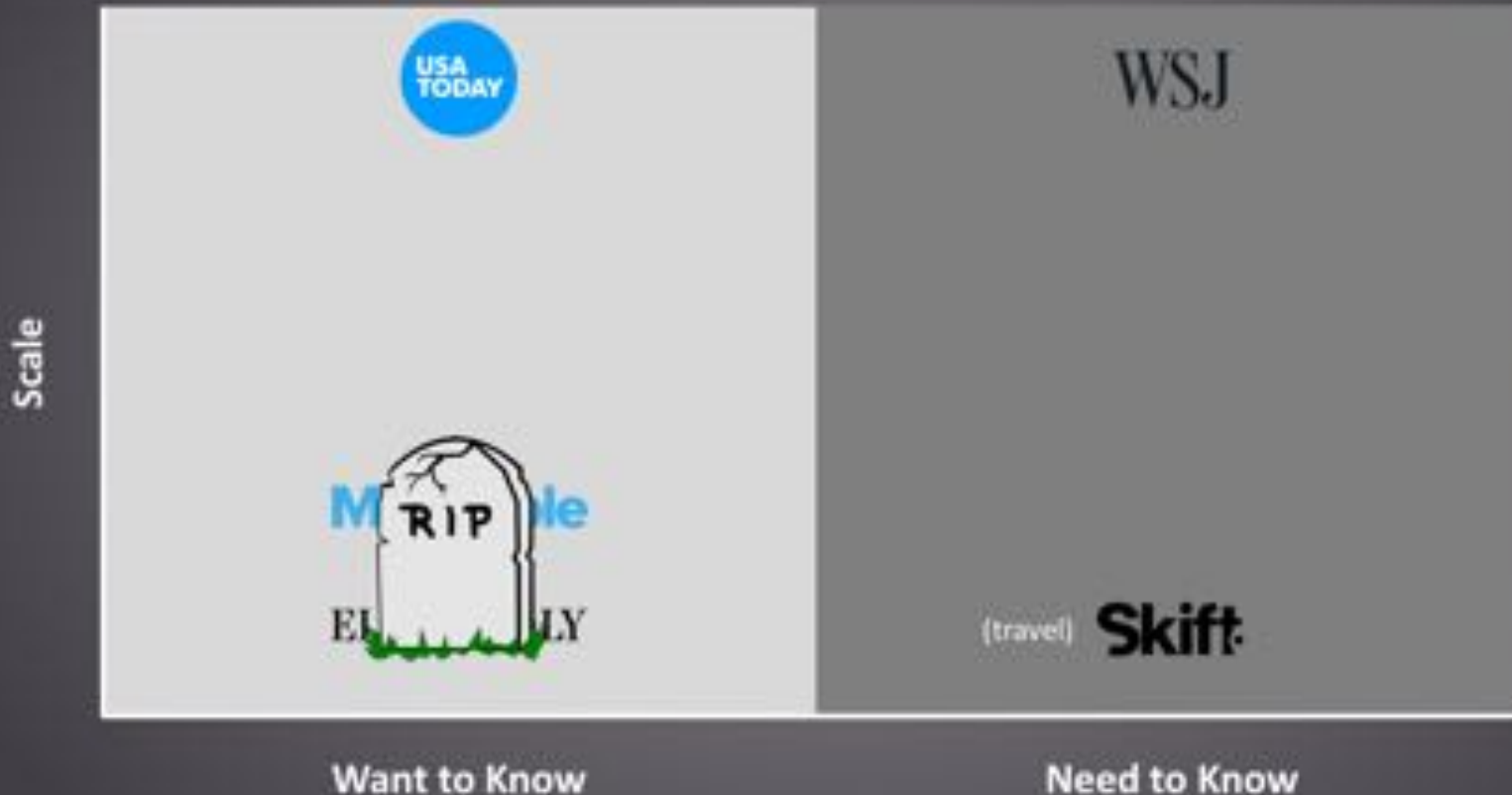
Podcasts



...as well as distribution opportunities, as they can leverage their brand to launch new forms of content and engage with their audience in different ways.



The Publisher Value Matrix



We envision the publisher value matrix through “Want-to-Know” and “Need-to-Know” properties. While there are large publishers of general interest or “Want-to-Know” content, there are others with scale and “Need-to-Know” content that have a material advantage. Even small publishers with a niche focus like B2B travel media company Skift, can build loyal, lucrative audiences and by effect, a strong defensible position. But if small publishers don’t deliver quality content, they will face a challenging future.

The Publisher Value Matrix



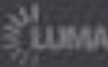
We are witnessing some interesting developments unfold, such as BuzzFeed, which is finding success with its new standalone food brand Tasty and is building a blueprint to start more vertical properties. Vox Media has long pursued this strategy, having built and acquired a family of verticals to address all types of contents and engaged audiences.

Back to the Future for Content 3.0

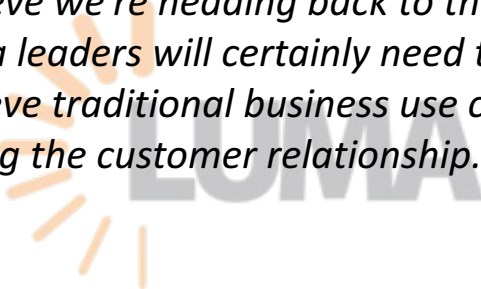
1 BRAND BUILDING

2 INVEST IN CONTENT

3 OWN YOUR CONSUMER



Ultimately, we believe we're heading back to the future for Content 3.0. While the future digital media leaders will certainly need to leverage technology, they will use technology to achieve traditional business use cases – building a brand, investing in content, and owning the customer relationship.





@cjmckenna12

**Thank
you!**



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