Digital marketing disrupted

How CMOs can gain new advantages

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Ad tech's transformational journey

Chief marketing officers (CMOs) have built a decades-old dependency on media agencies; regrettably, many of these relationships have devolved into that of a nontransparent, conflicted, third-party agent model. But the digital revolution, fueled by exploding demand for better technology and access to data, has clearly obsoleted that structure. Today's marketing challenges require an entirely new paradigm: empowering CMOs, in partnership with their chief information officer (CIO), not only to understand and exploit emerging technologies, but also to establish real-time access to better data. This will likely require fresh thinking about revised org charts, a willingness to bring increasingly more important functions in-house, and a fearless sense of accountability for marketing results.

The ad tech sector has been on a transformative journey over the past 20 years—moving in parallel with the evolution of the Internet, right up to today's world of absolute disruption. As ad dollars declared a strong interest in following eyeballs into the digital domain, venture capital dollars moved even faster, and the ad tech world formed. New work flows were invented, and new processes built, yet old measurement standards remained in place. Although many new metrics and acronyms have since flooded into the market, some legacy statistics still get leaned on much harder today than they should. What began as a pioneering group of start-up and print-to-digital publishers selling high-CPM display ads via faxed insertion orders to forward-thinking ad agencies quickly went mainstream. As the number of publishers grew quickly in a zero-barrier environment, ad networks began to rise, adding a convenience layer (and lower prices) by aggregating long-tail supply, and saturating the market with sales teams. As the bubble burst in 2000/2001 (who can forget the wave of cancellations publishers received starting in April 2000), paid search began its aggressive rise, using keyword-specific, second-price CPC auctions as the foundational engagement point for advertisers big and small. Early efforts around behavioral ad targeting gave way to targeting ads against specific audience segments via cookies, and ad exchanges simplified and automated the connection point between buyers and sellers. Mobile has finally come of age, gaining momentum as desktop tonnage wanes, and cross-device recognition continues to rise in importance and value. The emergence of the Google/Facebook duopoly will likely be a major driver for change in coming years.

Bold, unproven claims about audience-based, zero-waste advertising have set the stage for modern-day supply-side platforms (SSPs) to connect "programmatically" with demand-side platforms (DSPs). They are using as much real-time intelligence as possible—perhaps you have heard the term "big data"—to maximize the efficiency and value of these buyer-seller connections. This programmatic revolution brings the promise of a more efficient market—but not until we sort out all the layers and players who, despite their individual efforts to bring that efficiency, create a collective inefficiency, one that is further complicated by bad behavior from fraudulent players. The present-day gap (the digital advertising tax) is simply too wide right now between a CMO's marketing budget and the payment made to a publisher for delivering the right audience, and it must be compressed.

A programmatic revolution

In 2015, the estimated $154B digital global advertising space is in a full sprint to automate the buying and selling of digital advertising wherever it can be automated. This programmatic revolution is highly disruptive and threatens many of the dominant players in the current, managed-services-heavy ad climate. Consensus estimates put programmatic spending, across all forms of digital advertising—driven largely by display, video, mobile, native, and social—at as much as $30–40B by 2017. Many informed industry leaders believe that number—and that percentage—will be even higher as global digital ad spending chases the $200B mark over the next five years. Long-range estimates suggest that programmatic solutions may handle as much as 80 percent of ad tech dollars, with the remaining 20 percent dedicated to "made-from-scratch" campaigns that are custom-built for the world's leading brands by the world's leading publishers.

The CMO—in close partnership with the CIO—will simply force the market to right itself by demanding basic services that are long overdue: operational transparency, economic transparency, a compressed supply chain, and unconditional access to their data. But it will likely require new thinking around vendor analysis and selection, in-house staffing, and most importantly, willingness to insource the direct accountability for performance and results for every marketing dollar that the CMO puts out into the world.

Fewer players. Fewer layers. In-house programmatic teams. In-house accountability. **A higher percentage of ad dollars deployed as working media.** A higher return on ad spend. Better data, and better access to that data. **In short, a smarter business.**

Three things we see

1. The CMO role: Evolution...or revolution

Marketers are overwhelmed by data and how to use it, and CMOs are under pressure as CIOs rise in the organization. Chief executive officer (CEO) leadership here will likely be crucial; roles and responsibilities must be clarified.

Studies debating the need and role of the CMO seem to come in on both sides of the issue, with the majority of studies concluding that organizations achieve higher levels of performance with the CMO seat filled. But in much the same way that Web surfers vote with their mouse, organizations vote with their org charts, and the overwhelming majority of companies we looked at or spoke to have dedicated headcount in a CMO or CMO-like role.

Yet, CMO churn remains high, driven in many cases by their continuing efforts to "do what they have always done" as change swirls around them. The road ahead is complex, and decidedly a moving target, but a clear pattern that emerged from our discussions was one of CMOs focusing less on potentially regressive best practices, and working harder to define, and then focus on "next" practices.

> "The day I figured out how to really partner with my CIO was the day I realized I might need my agency less." – CMO, Media Company

But "big data" does not equal better KPIs…yet. As marketers—most of whom are fixated on using data to enhance customer experience—start to dial in on a more precision picture of success, these outcomes will likely require an entirely new and more refined set of performance definitions. However, the majority of CMOs have stated in various reports that they feel unprepared for dealing with the unprecedented levels of data flowing into their buildings.

As data access/availability/need continues to expand, and to increase in importance, the rising role of the CIO overlaps with many traditional CMO tasks. Hybrid "chief marketing technologist" roles are entering the narrative, but are complex roles that are extremely difficult to staff against.

> "If CMOs are only using marketing data to improve their marketing efforts, they're ignoring the other half of what their job is about to become—using marketing data as actionable business intelligence to lift the entire business." – Strategy Advisor, Holding Company

The challenge becomes that the CMO and CIO have different objectives, different motivations and different incentives. The unintended result is friction. As such, CEO leadership across the marketing discipline will likely never matter more.

CMOs are being asked to not only use marketing data to sharpen marketing efforts, but also to inform the rest of the business as useful BI. This step—repurposing marketing data to further inform the larger business—is largely an ad hoc process devoid of any standards or road maps.

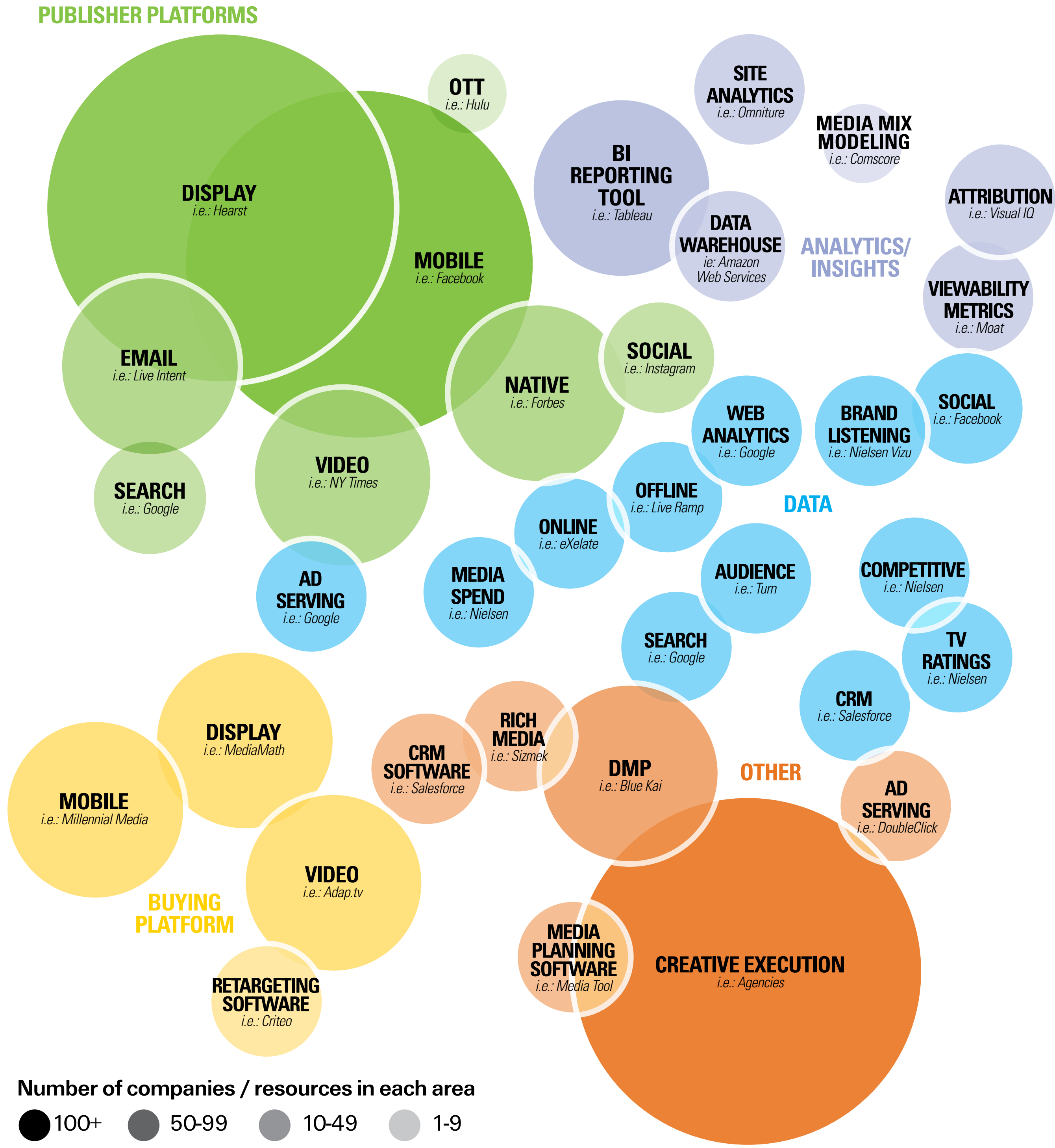
Organizations are dedicating considerably more resources to these data "command and control" centers and data management platforms, but marketers lack crucial frame of reference when selecting vendors, and will likely require trusted advisers to help ensure these decisions are made responsibly.

Through it all, the CMO psyche has not really changed—they are starved for blunt guidance, and they still see their agency as a useful alibi, yet there is a sense of perceived value in "pushing the dirty work" (not to mention the staffing requirements) to a third party. Sometimes, it is just easier.

> "Some days, I just need to be told what to do. Every now and then, someone needs to make it really easy for me." – CMO, Fast Food Industry

Too Much Data; Too Many Companies

With thousands of companies and resources to consider and choose from in all different areas, marketers are overwhelmed by data and how to use it, and collaboration between CIOs and CMOs is more important than ever.



2. Holding companies are lagging

Agencies are not adapting fast enough to provide sufficient help for their clients; in most cases, client needs are changing faster than agencies can re-code their own DNA (if that is even possible) more towards data and technology.

> "Hazy agency trading desk media markups are not what a client should be expecting from their 'trusted' agency advisor."
> – CRO, News Publisher

The holding company agency and trading desk model is under attack as clients are discovering the potentially unfavorable economics of opaque fees or markups that dilute their effective media-buying power. Wall Street has picked up on this, and valuations are fading.

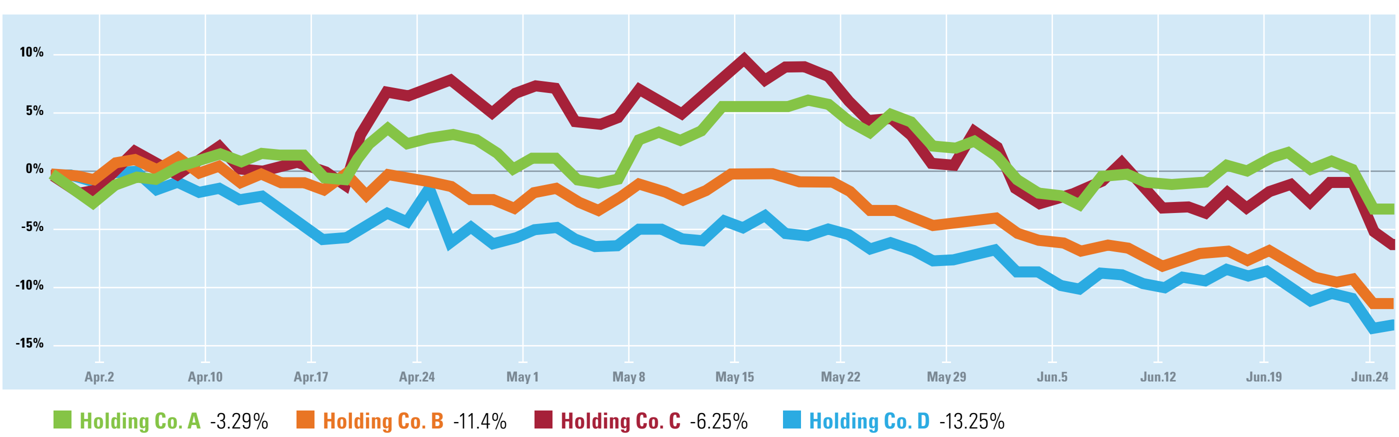
At the same time, the market is moving quickly toward more data and better technology—the two areas where there is widespread belief across the industry that holding companies are "less" qualified, especially as they continue to deplete client media budgets in a manner focused more on achieving at least some measure of agency profit than on campaign performance, as many have suggested.

For reasons that make sense within their respective models, agencies are best served to partner with technology providers, as opposed to building and maintaining feature-set competitive solutions of their own. As such, holding company-level vendor deals are not always best for individual clients, and many clients suspect, at best, a lack of alignment and at worst, a conflict of interest lurking behind many of these vendor recommendations.

> "Agencies are motivated to not train their clients, and to not share data. Does that make sense?" – Director of Science, Insurance Company

Territoriality, a sense of self-preservation, and an always-on bias towards justifying the quality of its work are preventing the open sharing of valuable data between an agency and its clients.

Agencies are not adapting fast enough to provide sufficient help for their clients; in most cases, client needs are changing faster than agencies can re-code their own DNA (if that's even possible) more towards data and technology. Holding company index data shown over a three month period shows the market is genuinely concerned.



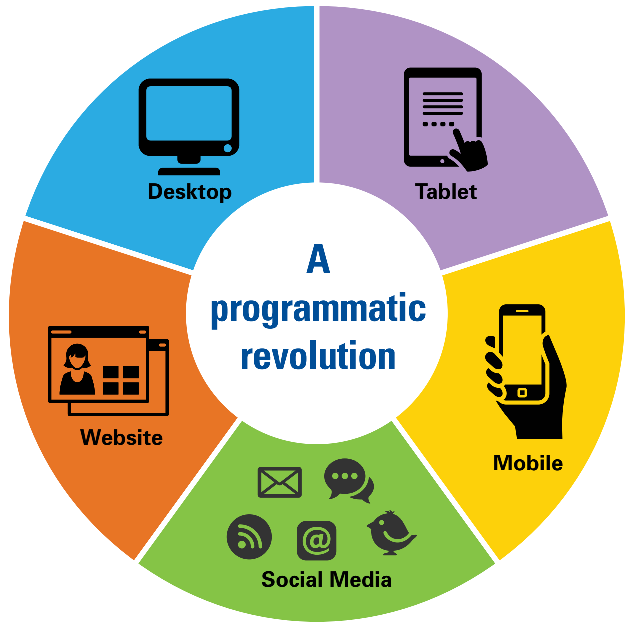
> "The more I learn, the more I realize I would spend my own money very differently."
>
> – Digital Marketing Director, Professional Services Firm

In addition, there is also a decided lack of transparency between agency and client around agency-side spend incentives or rebates. There is no shortage of available information (as well as confirmation in March 2015 from a former WPP Group agency CEO) about portfolio agencies routinely extracting rebates or incentives back from publisher entities with whom they spend client ad dollars. Whether it is modern-day margin pressure, or simply an opportunity to exploit buying leverage in an oversupplied industry, not all these gains are passed through to client bottom lines.

Other companies see an opportunity and are now competing to provide agent-like services as a transparent, closer-to-the-money alternative to this agency/trading desk model.

As a result, and perhaps serving as a frontrunner to wholesale industry change, agency reviews are happening at an unprecedented level as CMOs change their approach to marketing, media, and agency relationships. Multiple agency search consulting firms are reporting that as much ad budget from leading brands went into review in April–May 2015 as all of 2014.

Client-side perceptions that agencies are not adapting fast enough are very real, and are driving much of this temptation to explore alternatives to the current client-agency model.



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3. Too many layers of middlemen

Many industry leaders characterize the present-day digital media ecosystem as a disaster: vendor proliferation, too many players, too many layers, too many surcharges, too many mystery markups on media, and too much fraud. But new tools are emerging; programmatic—and all that it stands for—is a game-changing tactic.

> "It's shocking how often I see clients who are overpaying and undercontrolling their agencies. I think it's because they aren't exactly sure where their money is going."
>
> – Partner, Full service strategy and engagement agency

Targeting ads digitally against a specific user, with a specific ad impression, changed EVERYTHING. The promise of delivering individual ads to individual users promised a zero-waste ad delivery scenario, and has become the preferred ad delivery technique for the majority of nonsearch media buys.

> "We used to buy programs and placements–now we buy audience, programmatically, using data and technology. I need partners whose businesses are built on those two things."
>
> – SVP Business Development, Holding Company

Digital media dollars are jumping rapidly from the **"manually planned/bought/optimized"** channel to the **"automated, data-driven, real-time"** programmatic auction channel. Over the next several years, every forecast from every entity suggests solid, up-and-to-the-right growth for programmatic media spend across display, mobile, video, and every other ad format/type.

However, at major agencies, open job requisitions for media planners frequently outnumber open job requisitions for data analysts and programmatic traders.

In an effort to create greater market efficiency, vendor proliferation in the ad tech sector has created too many layers between the marketer and that publisher who delivers the target audience at scale. The layered ecosystem has achieved a true paradox: the concentrated effort by hundreds of companies to introduce more efficiency into the market forces it to remain inefficient.

The resulting landscape is exceedingly complex, and the "tech tax"—fees charged by each link in the supply chain—is prolific. Multiple public ad exchanges or DSPs have public filings that report media margins in excess of 40 percent, with some over 60 percent in the last year.

The value of ad environment has also still not been quantified, which brings all forms of supply into play, and tempts marketers to settle for a premium user in a nonpremium place. This marketing quest to discover "pockets of value" has consequences, as not all supply is created equally, and good ads—targeted to specific profiles—wind up in bad places.

Further, a weak self-policing effort by the industry has enabled fraud, bad behavior, exceedingly disruptive players, and a universal lack of trust among buyers. A December 2014 report from Google concludes that 56 percent of their display ads were not in view. It is not unreasonable to suspect that those numbers are even worse for mid- and long-tail sites with much less to lose.

In summary, the promise exists, but unless CMOs take tighter control of a smaller number of better partners, and adopt a more hands-on approach to exactly how their dollars are deployed, that promise will likely remain unrealized.

Layers of middlemen tax the CMO budget

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CMO MARKETER	AGENCY FEE	AGENCY MARK UP	TECH TAX	CRO PUBLISHER
Spends... $10M	**...takes 10-15%**	**...takes 0-60%**	**...takes 25-75%**	**...receives $2.5 - 5M**
Digital marketing spend per period through an agency	Typical fees of an agency	Typically on programmatic media though varies greatly by agency/trading desk Agencies may also outsource spend to ad networks who take a large fee/margin	DSP SSP Exchange/Ad network Ad serving, viewability, data, rich media, retargeting, verification, attribution Mobile, video, display	Digital marketing spend per period depending on the fees taken throughout the campaign

Bringing programmatic spending in-house can create long-term advantages

Pent-up client frustration over all the layers is growing; there is too much time between the question a marketer asks and the answer the agency provides. Marketers are developing a sense that they could do better, and emerging self-serve tools are pushing many marketers down the path of taking greater control of media deployment.

Whether it is display, mobile or video, marketers are increasingly taking control of programmatic ad deployments, and beginning to take advantage of 24/7 access to their own data.

> "Everybody knows big changes are coming, but nobody is exactly certain what to do. But it will start with marketers getting more involved with programmatic spend. It's too important." – VP Programmatic, Large Publisher

Agency clients are incrementally discovering the layers, the information lag, and/or the total lack of information coming from their agencies and vendors.

> "It's pretty simple—if I don't have total access to all my data, that's a huge problem."
> – Global Head of Direct Marketing, Financial Company

Marketers are also realizing the tools that enable programmatic buying (and all the data that springs from these buys) can be piloted effectively by an in-house team, and these in-house teams, while still in the minority, are growing rapidly.

A recent report from Index Exchange, for the U.S. marketplace, indicates that between Q1 2014 and Q4 2014, the percentage of "seats" in programmatic trading exchanges owned by in-house marketing teams jumped from 5.9 percent to 16.9 percent.

And with literally every other report in the marketplace suggesting meaningful programmatic growth over the next decade (with many suggesting it will cap out at 80-90 percent of digital ad budgets), this category has attracted significant interest from marketers.

Agency clients are discovering that one of the most valuable elements of big data is constant, real-time access to it.

In parallel, they are also realizing these emerging in-house operational commitments would require an evolved staffing structure—one that would be underwritten by traditional fees they would no longer be paying to third parties to provide various services.

In an environment where marketers remove legacy supply chain players as they bring programmatic ad spending in-house, they will likely gain more value from the neutral adviser model as opposed to the agent model, especially in a market overwhelmed by technology obsolescence, partner conflict, and lack of regulation. And we believe the "in-house" influence will be driven by the overlap of these four significant factors:

- Pent-up client frustration with legacy services
- The ubiquity and efficiency of audience targeting instead of site targeting
- A thirst for data
- Improvements in self-serve programmatic buying platforms

"On the client side, the big winners will be the marketers who commit to compress their supply chain, and are willing to take on direct accountability for all outcomes, good or bad." – CRO, Large Publisher

The emerging supply-side duopoly could materially simplify a very complex piece of the market.

Younger companies have already made the turn, or have managed programmatic marketing with internal teams (and external tools) from their inception.

Taking Control of Your Media

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CMO Hires

Publisher Business Development
Ad Tech Vendor Analysts

CMO or CIO

New roles depending on skills of each

Traders/Optimizers/Buyers
Yield, Reporting, Marketing Mix, Publisher, Site, Verification & Attribution Analysts, Ad Ops
Tagging & Creative Specialist

CIO Hires

Ad Product Managers
API/Data Engineers
Data Warehouse Engineers
Data Scientists

Moving programmatic buying in-house

As marketers begin to conduct rigorous self-examinations to evaluate their ability to bring programmatic marketing operations in-house, they are routinely overwhelmed by the complexity that exists in today's marketplace. They are uncertain of how to get started, or with whom they should work. There are many questions about vendors, process, staffing, training, and timing. This is that moment where a new relationship with a transparent, neutral adviser—and not a conflicted, territorial agent—becomes incredibly valuable.

Google/Facebook Duopoly

The Google/Facebook duopoly is poised to take 68% of the Worldwide digital adverting market share by 2017.

> "Taking things 'in-house' doesn't necessarily mean doing everything yourself in a vacuum. It's about a smaller number of more appropriate partners, total transparency on a logical fee structure, and full-time, real-time access to our data." – CEO, Programmatic Trading Platform

When considering DIY testing, marketers are not exactly certain how to get started, or with whom they should work. There are many questions about vendors, process, staffing, training, and timing. This is the moment where a new relationship with a transparent, neutral advisor—and not a conflicted, territorial agent—becomes incredibly valuable

Too many products to license

As a Marketer in the digital space there are....TOO MANY PRODUCTS TO CONSIDER when bringing Programmatic buying in-house though must start somewhere; then add on other in house platforms/services as needed.

START with one

RTB Buying – Display

RTB Buying – Video

RTB Buying – Mobile/Facebook

MUST HAVE in house

Web Site Analytics

Site Retargeting

Paid Search

Data Warehouse

BI Tool

GOOD TO HAVE in house

Site Optimization

Creative Tagging

Attribution

Viewability

OK TO HAVE in house

Traditional RFP

Ad Server Display

DMP

Ad Server Video

Planning Tool

Native Advertising

Build Mobile Apps

Social Analytics

Offline Attribution

Non-digital Media Buying

Email Marketing

Consumer Insights

Media Mix Execution

CRM

Make the Creative

EXPERIMENT* in house

New Category

New Ideas

New Platforms

*Always experiment with 5% of the budget

Are you ready to bring programmatic buying in-house?

Five questions CMO's should ask themselves…

1. Does your overall advertising strategy need to be revisited? Is it appropriately connected to the rest of the business?

2. Does your organization use marketing data to make better high level decisions? Do you currently see a holistic view of digital media spend, CRM and site analytics in one? Would you spend more money in digital marketing if you knew there was a true, objectively measurable correlation to sales?

3. Are you happy with your current agency relationship? Are you contemplating bringing that relationship into review like many others have done over the past six months? Have you established transparency and trust.

4. Are you ready to hire more people to start the process of bringing some marketing functions in house? Will you be able to get the headcount? How many people at the agency work directly on your account? What does the agency charge you on a yearly basis?

5. Would you like to have your own in-house data science team, providing daily guidance not only on marketing performance, but also on how to improve that performance?

CMO roles are being reinvented in real time. The legacy "conflicted agent" model is giving way to the "neutral adviser" role as marketers look to insource what must become core competencies—safe access to, and full leverage of, marketing data. The complexities of today's media marketplace demand that CMOs and CIOs work together to identify partners who specialize in enabling client success, and can help marketing leadership to define and tap into the opportunities that await them.

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