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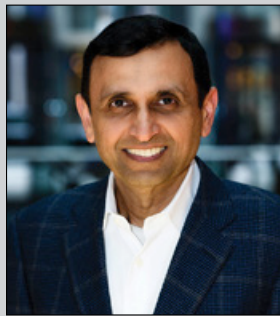


The State of Digital Advertising

An Interview with Seraj Bharwani, Chief Strategy Officer, Acuity Ads

Seraj Bharwani

As the chief strategy officer for Toronto, Ont.-based Acuity Ads (www.acuityads.com), a leading AdTech company, Seraj Bharwani recognizes the need to rethink the current ad-based model. He was one of the founding members of Digitas in the nascent days of the web and over the years he has helped shape the digital strategies for many top consumer brands, among them American Express, P&G and AT&T.



This interview has been edited for clarity and conciseness.

Ever since the earliest ads began appearing in newspapers at the start of the 19th century, advertising has been tolerated by most people as a credible source of information on products and services. But in recent years, as digital advertising has steadily grown to account for one third of total ad spending, public trust and favourability has declined sharply. Most people now feel bombarded by interruptive digital ads, creeped out by ad retargeting and resentful at the constant intrusiveness. According to Forrester Research, just 21% of the online population still believe ads are a good way to learn about new products¹.

Everyone else feels preyed upon, knowing their online activity is being shared by ad networks across the web.

Advertisers, for their part, aren't feeling they're getting their money's worth. The world's biggest ad spender, P&G, had harsh words for the industry a couple of years ago, accusing it of waste and fraudulent practices, upset that as little as 25% of money spent on digital ads was reaching its intended audience. The world's second biggest advertiser, Unilever, has called the web a "digital swamp". Its former CMO, Keith Weed, recently said, "Without trust, advertising has no future".

That's why the web has reached a "tipping point", according to its inventor, Tim Berners-Lee, who favours a total reboot. The problem, of course, is that the web's commercial model revolves entirely around brands spending money on ads, these days mostly through programmatic advertising. Almost all of the digital display dollars are being soaked up by the duopoly of Google and Facebook, and now Amazon has entered the ring, its sights set on attracting a hefty slice of that spending. That leaves the rest of the digital publishing industry fighting over a shrinking pool of ad dollars, forcing them to consider adopting a subscription model just to stay in business.

Today thousands of ad tech companies feast on US\$235 billion in online ad spending². Consumers have responded by installing ad blockers, with one quarter of US Internet users now blocking ads³. The adtech industry has been trying to clean up its act, but until they give people a better reason to view and click on ads, a day of reckoning is coming.

In this interview Seraj Bharwani shares his perspective on the past and future of digital advertising, as well as his ideas for industry reform.

¹ Forrester, "Consumer Technographics North American Online Benchmark Survey (Part 1), 2017", April 2017.

² AdAge, "Marketing Fact Pack 2019", 2019.

³ Nicole Perrin, "Demanding a Better Ad Experience", eMarketer, December 4, 2018.

SS **Stephen Shaw (SS):** The doors to the Internet swung open to the public a quarter century ago. Not long after that, you joined Digitas as an early pioneer in this business.

SB **Seraj Bharwani (SB):** Late 1994. That's right. The Netscape browser had just come out.

SS It must have been a pretty exciting time. Did you have any inkling that the Internet would become as pervasive as it is today?

SB One of the first conversations I remember having [at Digitas] was with Leon Gorman, who was the CEO of L.L. Bean. As he's sitting across the table from me, I'm explaining all the reasons he should take his company online. Leon was of course very courteous and polite and said nothing. And so finally I asked, "Leon, what do you think?" Leon takes a L.L. Bean catalog on the table, slides it across to me and says, "Have you seen this catalog before?" I said, "Yeah, of course, Leon, I have." And he says, "Do you know something? I know exactly how much revenue I get for every square inch of the paper in this catalog. So what's the internet going to do for me?" Of course, back then we had no proof points. There were no case studies at the time. There were so few web sites out there. And commerce was still in the distant future. But you know what? The meeting ended well. He said, "Let me tell you why I want to be there. My customer file is getting older every single year. The Internet is all about young people and I need to bring younger folks into the L.L. Bean franchise."

SS Now here we are, 25 years later, and people are starting to question the state of the Internet. Tim Berners-Lee, the inventor of the Web, recently called it, "...an engine of inequity and division; swayed by powerful forces who use it for their own agendas." Is he right?

SB In the early days, the idea behind the Internet was to serve as a collaboration platform. But today you have these two forces that have taken control: one is commercial, the other is tribal. Until we find a way to break that stranglehold, we are going to be in trouble.

SS Tim Berners-Lee is suggesting a decentralized platform where people own their own data and only make it available to the people, groups or brands they trust. Is that a technically viable proposition?

SB It is viable... but look, people generally avoid things that take effort. People always opt for convenience. It is not a question of technical feasibility.

SS A counterpoint is that the Chinese shopper has embraced the complexity of mobile commerce, making a trade-off between convenience and privacy.

SB Well, because they leapfrogged the desktop era. Mobile was their jumping off point.

SS Digital transformation is at the top of the corporate agenda today. Why are so many organizations still struggling with it?

SB Years ago, way back in 1995, I made a presentation to 50 brand marketers at Kraft General Foods, explaining the power of the Internet. They looked at me like I was smoking something. They were perfectly happy playing the classic recency/frequency TV ad game. They thought, why did they need to do anything different? Why did they need to have direct consumer engagement? The thought that you could be disintermediated by direct-to-consumer start-ups never even occurred to them. For them, it has always been business as usual ... until now.

SS Is that because marketing has always treated the Internet as a channel and not a different way of doing business?

SB Absolutely. Look at Walmart. Under 5% of Walmart's business is coming from online. Their thinking is that it's just another store.

SS Extra shelves.

SB Just a few more shelves up there for people who are online. It was a limitation of their mental model.

SS Real change seems to be driven out of fear more than anything else.

SB Now it is, because look at what P&G experienced: Gillette used to have 72% of the global men's shaving market. Today they're at 55%. That is a massive blow for them.

SS And it's happening in other categories.

SB Yes, yes. It's happening in hair care, it's happening in beauty.

SS Let's stick with P&G whose CMO Marc Pritchard called the digital media supply chain murky and fraudulent. He said that digital ad viewing time is less than two seconds. He complained about brand safety. About lack of supplier-side transparency. Has the digital ad industry lost the confidence of the big ad spenders like P&G?

SB P&G has been our client for 10 years now. A lot of his concerns are absolutely valid. The number one challenge is consumer attention. Brand-generated content is growing at 20% to 25% a year whereas the growth in consumer media consumption has ranged from 5% to 8%. That gap keeps growing every single year. Which means there is a massive competition for viewer attention. Now, look at the other side of it - publishers. Publishers are saying, "Look, consumers don't have the attention span anymore and therefore you as advertisers must shrink your content down to 10 seconds or 6 seconds or even 3 seconds". They want to jam in as many ads as they can. Up until a year ago, you would have a pre-roll ad and a mid-roll ad, that was the ad load. This year, there could be as many as seven different ad interruptions, depending on the length of the video. I'm not saying publishers should not make money. But this is absolutely going to hurt advertisers.

SS And it just increases the frustration people feel using the Internet. A lot of ad clutter gets in the way of what they want to do.

SB The other thing that's happening is programmatic. Now you've got the SSPs, the exchanges, the networks, the DSPs and so on. Each of those is taking some piece of the revenue pie to the point where if an advertiser spends 100 bucks, you're lucky if \$30 went into actual ad exposure.

SS That was Pritchard's big complaint. One of the other challenges is, of course, you've got to play by the rules of the two biggest tech giants out there hogging most of the ad dollars, which is Google and Facebook. Now along comes Amazon competing for those same ad dollars. How do you see this battle playing out?

SB I think Amazon is definitely going to get its fair share of the media money. Ultimately the limitation on how far Amazon can go is going to be dictated by the consumer experience. I would say that money spent on Google and to some extent on Facebook is being used in part to build brand equity, especially on the video side of their business. The performance dollars will start going to Amazon. The consumer mindset on Amazon is very different than the mindset on YouTube - you're there to buy something.

SS Amazon has one other big advantage right now and that's Echo and Alexa. Will the voice interface soon become the way we interact with the Internet and by extension brands? And if Echo and Alexa establish dominion over the household, doesn't that give Amazon a huge advantage?

SB There's one very important reason why the voice interface will be extremely compelling: consumers love the convenience. It's so much easier to tell Alexa, "Just ran out of AAA batteries. Order some for me." And Alexa will be happy to give you the Amazon-branded triple-A batteries. But if you need visual support to make a product choice, a voice interface won't be enough.

SS So let's talk about the elephant in the room: ad avoidance is on the ascendency. Will that bring down the "free and now" Internet?

SB Eight hundred million people are blocking ads today. But here's the thing: I don't see a household wanting to subscribe to dozens of different subscription services. By the time you subscribe to your third video streaming service, you are spending anywhere between \$45 and \$50 a month. That means people will always need ad-supported media. The way publishers can solve the problem is to make the consumer ad experience way better than today. I had the Pandora people on my panel at Ad Week last year and one of the examples they talked about was giving users the choice of watching an ad or two right at the beginning of a scheduled playlist in return for no other ad interruptions.

SS You're also seeing the rise of lifestyle brands and platform ecosystems that interconnect different suppliers serving the same audience.

SB

Look at Red Bull Media. I mean, that's a lifestyle. And they are bringing together a variety of partners. Whole Foods helps people know the right things to eat – they are completely content-driven.

SS

There's this other concept called "share a life", the very thing you were just describing, where a brand is invited into the inner circle of a person's life. But it does demand trust and the trust is dependent on what the brand is willing to do with the data people are willing to offer up in exchange. GDPR is now forcing companies to think differently about this. What does GDPR and other privacy regulation portend for the future of digital advertising, which is largely dependent on the ability of knowing who's browsing at a specific point in time?

SB

I'm glad that the Europeans showed leadership on that front and now North America is following suit. On the other hand, people aren't necessarily that diligent in protecting their own data even if they say they're concerned. For example, you go to a publisher site and it tells you they're tracking cookies - you're not going to read the 10 paragraphs in the terms of agreement. You're just going to say, "Okay," and move on. Just because you have consent isn't really enough. A much better way to deal with all of this to establish the context in which people live, depending on where a person is, what they're reading, what they're watching, what they're consuming, as opposed to explicitly asking people for all of that information.

SS

But that comes back to the issue of privacy. People don't know where that data is being transferred and hence the need to have explicit consent.

SB

Brands have to become utility-driven, where the service they're providing is integral and warrants a quid pro quo. So this goes way beyond just messaging and interruption. It is about converting the brand into a service to help people live a better life.

SS

Advertising's original purpose was to be a source of information, not a source of annoyance. Does advertising take on a whole different form?

SB

I would say that the role of advertising is either informing people or inspiring them. So I'll give you two examples of brands we've worked with over the last year. One is Excedrin, the pain relief medicine. Excedrin was the number

five player in that category for years. They decided they needed to be more specialized. So they said, "We're going to be the masters of migraine." As opposed to just doing hard-hitting advertising, they recruited migraine to talk about what they do to minimize the incidence of migraine - all of those things besides just popping pills. They created videos of those people, showing what they do in an average day to better manage their condition.

SS

The brand as trusted advisor.

SB

Absolutely. Okay, so now let's talk about Lysol.

SS

That's quite a switch.

SB

There are now 15 competing brands and products that can kill germs. So they wanted to elevate their message, and the way they elevated it is by saying, "Lysol protects your children like you protect your children as a parent."

SS

An emotional message.

SB

A completely emotional message. Very inspiring, very touching. This is what I mean by connecting in a very different way. Remember our discussion about Alexa? It's very easy for Alexa to give you a recommendation based on what's the cheapest option. So you need to get the consumer to say specifically, "I want Lysol, I want Excedrin."

SS

When you started down your career path 25 years ago you probably couldn't have imagined where we'd end up today.

SB

Things are happening so fast. And frankly, I will say that as messed up as digital advertising has been, I see enough evidence that the entire supply chain is being cleaned up to make the future truly quite exciting.



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