The Changing Mission of Marketing Data

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Executive Summary

"A new era, spawned by computer power and an information explosion, is here. And the decade to come holds even brighter promise for direct marketers."

— **Preface to the DMA List Practices Handbook**
Published by the Direct Marketing Association
August 1988

The times were indeed different. Ronald Reagan was in his last full year in the White House. George Michael's single "Faith" was at the top of the U.S. pop music charts. And the New York Yankees were a whopping 10 years removed from their last World Series title.

In the world of marketing, though, 1988 brought a proclamation that seems perfectly well suited to the 21st century. The suggestion that data and technology would soon drive a wave of sweeping change—extended above in a guide to best practices across the list management and brokerage business—is even more appropriate today than it was those 22 summers ago. But that, needless to say, is where the similarities end.

Today, the commercial marketing data industry (including all those who compile, manage, optimize and use information to improve marketing performance) is in the midst of a full-scale transformation. Once dedicated almost solely to the aggregation and usage of "lists" for direct mail acquisition programs, it now contends with an array of new demands—rooted in fast-maturing media channels and refocused business objectives—that are reshaping the way marketers source, analyze and apply customer information.

Though much of this evolution is being driven by the vast commercial possibilities of the Internet, the scope and pace of change suggest an even more fundamental shift is afoot, focusing the broader advertising community on a series of critical questions: *How may data most effectively be used to address core business needs? Where can this data be sourced? How may it be shared, optimized and enhanced for reuse? And where is the infamous "line" that divides responsible and wayward business practices?*

The marketing data industry is in the midst of a full-scale transformation …reshaping the way marketers source, analyze and apply customer information.

These are unusually weighty questions for a mature industry. In 2009, U.S. companies invested **$7.8 billion** in marketing data and associated services (including hosting, hygiene, analytics and other functions). Of that, about $410 million—**just 5.3 percent**—was derived from purely online sources.

Over the next few years, though, the situation will change. By 2012, U.S. marketers will continue to dedicate a steady **$7.8 billion** to marketing data and associated services, even while the proportion of those budgets commanded by "digital" sources and applications will more than double to represent **10.8 percent** of the mix—over $840 million in annual investment.

This paper—researched and produced with the joint sponsorship of Acxiom Corporation and Netezza Corporation—represents a concerted effort to understand and explain the nature of that shift and its likely impact on both marketers and the evolving sector of marketing data service providers. In addition to the above conclusions, it will demonstrate that:

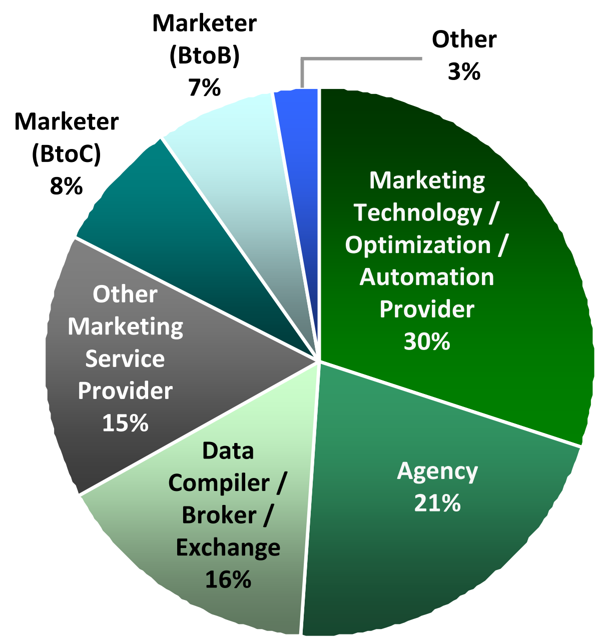
- The current wave of new data investment was initially driven by marketer desire to apply the basic principles of direct mail—embodied by the "right offer, right audience, right time" targeting concept—to underleveraged online channels such as e-mail, affiliate marketing and search. But rapid advances in technology and an explosion of information availability have given rise to a **new set of data-driven digital applications** (including Web site optimization, lead generation and real-time media buying) that align with a broader array of business objectives and integrate inputs from multiple sources
- Companies are increasingly **coming to view virtually *all* data sets as critical core assets**, with insight into such (as enabled by analytics processes and tools) representing an important source of potential differentiation and competitive advantage. Though the same marketers are anxious to make use of the burgeoning quantity of "unstructured" information being generated across the Web, most remain hamstrung by inefficient data management infrastructures built to handle "structured" data funneled through a well-defined set of channels
- The service provider landscape supporting integrated data utilization has yet to fully coalesce. But it is already clear that **the industry will grow increasingly fragmented**, led by new influencers including online data compilers and exchange platforms, database management vendors, publishers, e-commerce platforms and a wide range of technology-focused performance optimization providers
- The most fundamental execution challenge facing the users of "integrated data"—that which is derived from both on- and offline sources—is rooted in technology and infrastructure. Both digital and traditional data sources must be compiled, standardized, segmented and made appropriate for use in near-real time, **demanding process controls, storage technologies and segmentation algorithms** that can efficiently manage high data volumes and progressively "learn" from past performance
- Among the potential obstacles that are likely to vex users of "integrated data" in the years ahead, one supersedes all others: the **still-unsettled question of what standards count as "responsible" with respect to data security, transparency and consumer choice**. Marketers overwhelmingly say they want to abide by a set of universal best practices in this regard, but rapid technological proliferation and the continuing threat of regulation are raising concerns about their ability to collect and use virtually *any* online data, especially when that information is embedded with personally identifiable ("PII") elements.

Methodology

This study aims to identify and illustrate the significant shifts in spending, strategy and supply chain composition that are coming to define the commercial marketing data industry, both in the United States and worldwide.

Developed with the sponsorship and support of both Acxiom Corporation and Netezza Corporation, its findings are based on the results of an intensive research effort that included in-person, phone and online surveys of more than 175 marketers, agency executives, data compilers, technology developers and other marketing industry thought leaders around the globe. It is further based on Winterberry Group's objective quantitative and qualitative research into the advertising ecosystem, as well as various independent industry studies published in 2009 and 2010.

Research Panel Respondents: Primary Company Profile



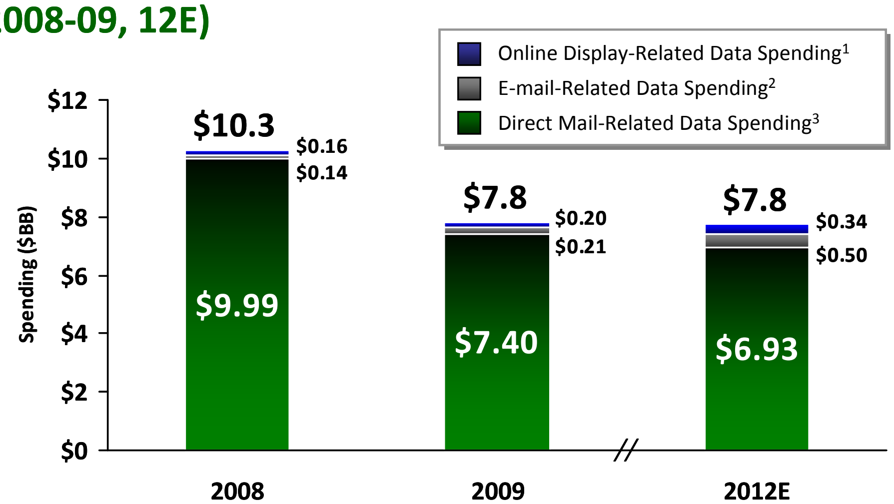
Source: Winterberry Group survey

n = 176

The Big Picture: "Digital Data" Growth Compensating for Decline in Direct Mail Spending

The exchange and deployment of commercial marketing data is managed by a complex, multi-tiered industry that spans a range of institutions involved in the compilation, management, processing, brokerage, optimization and utilization of information for advertising and promotional purposes. Traditionally, the focus of this enterprise was the *direct mail* channel, supported primarily by list owners and compilers, brokers/managers, hygiene providers and marketers.

U.S. Marketing Data & Related Services Spending (2008-09, 12E)



(1) Online display-related spending includes retargeting services, intent data / inferred data, offline data used for to inform online marketing
(2) E-mail-related spending includes lists, database management, brokerage fees, hygiene and analytics services
(3) Direct mail-related spending includes lists, database management, brokerage fees, hygiene and analytics services

Source: Winterberry Group analysis of various sources

Over the last several years, though, the traditional roles of these distinct groups have begun to blur in the face of two key developments—the recession-driven decline in total spending on direct mail, and the rise and maturation of online media as both replacements for and supplements to the roles previously played by direct mail.

Not surprisingly, spending on data and related services (including both "insourced" spend and that distributed to third-party data compilers and service providers) approximately mirrors the broader shift in emphasis to digital channels. In 2009, for example, U.S. companies invested **$7.4 billion** in direct mail-related data, hosting, analytics and related services. By comparison, their digital-related data spending (including dollars vested primarily in the e-mail and online display advertising channels) totaled just **$410 million**—barely 5.2 percent of total annual marketing data spending.

Notably, 2009 direct mail-related data spending declined *dramatically* from the previous year, echoing the year's substantial, systemic decline in direct mail investment. Though much of this fall-off may be attributed directly to the economic pressures that drove the broader mail decline, it's worth noting that data spending fell by a higher percentage than mail in general (**down 25.9 percent versus an across-the-board mail decline of 16.8 percent**), suggesting that many marketers opted to drastically cut their prospecting efforts—which rely on more costly external data resources—in deference to customer retention and loyalty marketing efforts. What's more, spending on data deployed against digital marketing applications actually *grew* during this otherwise dreary year, spiking more than 36 percent in concert with the emergence of several new digital marketing channels and applications.

Looking forward, the developments that characterized 2009 are expected to continue dictating the allocation of marketer dollars to both data and other campaign execution functions. By 2012, U.S. marketers are expected to decrease their investment in direct mail-related data and services to $6.93 billion (representing a 6.4 percent total decline from current spending), while more than **doubling their digital marketing-related data spending to $840 million**.

But why, despite such substantial growth, does digital data spending continue to trail that of its more mature peer channel?

In many respects, the reason mirrors the most basic distinctions between mail and online media. Many "offline" data elements continue to be collected, processed and standardized through an assortment of manual processes, ranging from paper surveys to product warranty cards to public records. In comparison to digital sources—which may be aggregated with little or no human intervention at all—these traditional approaches are significantly more capital- and human-intensive, adding commensurate cost.

Furthermore, issues connected to *scale* continue to inhibit more widespread digital investment. Whereas some offline compilers have managed to aggregate data sets that include records on the vast majority of U.S. consumer households, such broad coverage remains elusive among online media, where privacy concerns and more focused information collection techniques have kept the universe of available data elements comparably low. With less data at their disposal to drive campaigns across large prospect populations, marketers have simply had less need to invest in scaled infrastructure and analytics tools to derive value from that data.

That limitation, however, is eroding.

With less digital data at their disposal to drive campaigns across large prospect populations, marketers have simply had less need to invest in scaled data infrastructure and analytics tools. That limitation, however, is eroding.

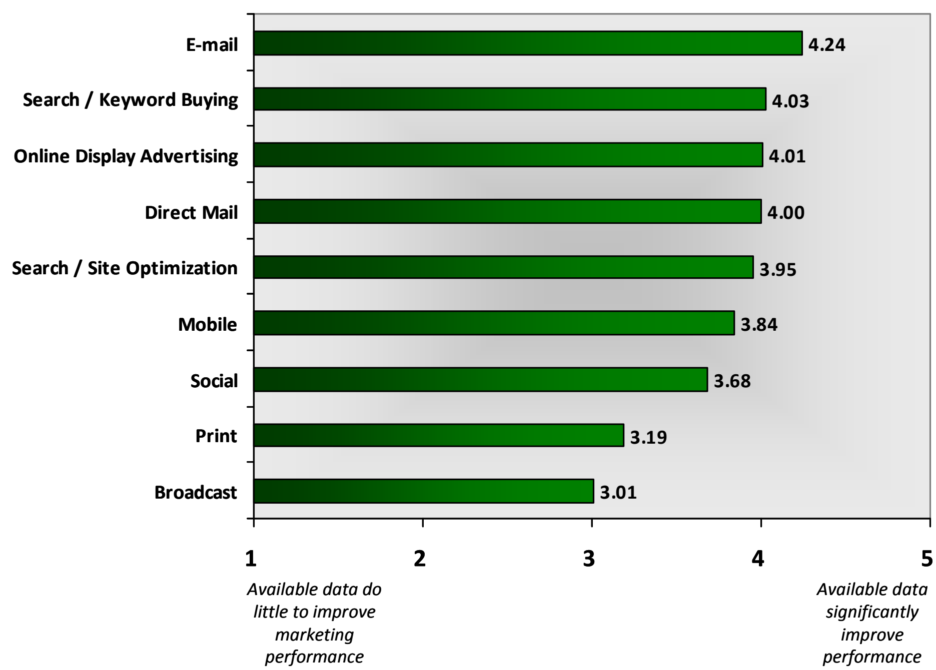
Media and Mission: The "Two M's" Reshaping the Way Marketers Use Data

The current wave of new data investment was initially driven by marketer desire to apply the basic principles of direct mail—embodied by the "right offer, right audience, right time" targeting concept—to underleveraged online channels such as e-mail, affiliate marketing and search. But rapid advances in technology and an explosion of information availability have given rise to a new set of data-driven digital applications (including Web site optimization, lead generation and real-time media buying) that align with a broader array of business objectives and integrate inputs from multiple sources.

"How do we capitalize on the overwhelming potential of the Web?"

Since the Internet emerged as a viable consumer marketing platform, that's been a recurring challenge confronting advertisers. But after more than 15 years of practical experience, the question remains largely unanswered. Consumer attention and marketer investment continue to flow from traditional channels to online media—but incremental performance (and the ad dollars

Think about the data sources now available to drive marketing programs. To what extent do you believe they are useful for improving performance within the following channels?

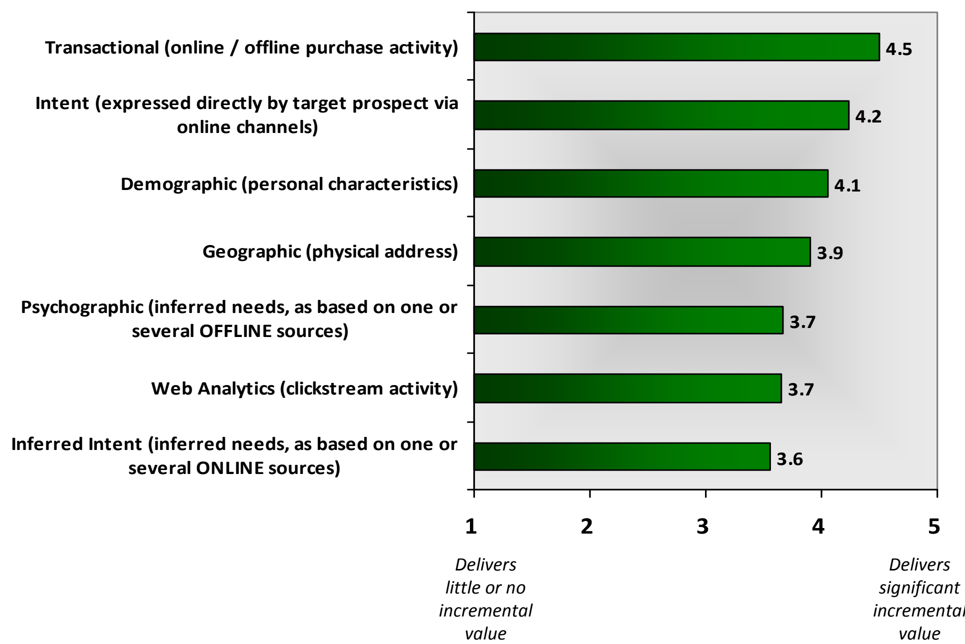


Source: Winterberry Group survey

that would follow it) have never accrued online in sums comparable to those generated by print, broadcast or even direct mail.

Part of the reason: The first generation of Internet marketers—swayed by promises of "interactivity," "measurability" and "performance"—applied traditional direct marketing methods to emerging media that demanded new approaches to data collection, targeting and campaign execution. Marketer intentions here were generally sound (and the notion that consumers would be more likely to respond to "the right offer, via the right channel, at the right time" remains just as valid now as it was then), but many ultimately wound up *abusing* the flexibility and speed offered by the Web—in some cases to highly unproductive ends.

To what extent do you believe the following data types are valuable in improving marketing performance?



Source: Winterberry Group survey

For that reason, among others, the viability of e-mail as a customer acquisition channel quickly deteriorated. (Consumers, it turned out, would not tolerate a constant barrage of disruptive, unsolicited messages as readily as, say, a stack of envelopes delivered once a day.) Online display advertising, likewise, suffered from wavering interest for the better part of a decade—the victim of both immature media buying practices and relentless oversaturation that conditioned consumers to tune out banners, skyscrapers and other ad formats.

One channel, notably, did emerge from the "bleeding edge" era in comparably strong position: search. But that's largely because search engines had no offline corollary channel from which marketers could project their tactics. From the very earliest days, search data was compiled, distributed and used to optimize both site content (to improve organic ranking) and inform media buying (by way of keywords), driving billions of dollars in marketer spending and cementing the medium as the new cornerstone of effective online marketing.

Today, marketers enjoy the benefits of better technology, widespread consumer digital adoption and a decade and a half of experience to inform their online efforts. Above all, they're proceeding with the understanding that access to granular, real-time *data*—rather than the digital channels themselves—is the real fuel of effective marketing.

That shift in understanding has had two impacts. The first is that marketing data may now be applied to a wider array of distinct *marketing* channels than ever before, helping to improve the deployment efficiency and ultimate effectiveness of those efforts. Most prominently, display advertising is now being driven by a robust "second wind" of interest and investment—most centered around the usage of data to allow for precise ad targeting and efficient media buying. In the future, other existing channels may benefit similarly—but only if data depth and quality continue to improve. "Consider the merging of TV and Web," said Tom Alison, CEO of ClearSight Interactive. "As addressable TV emerges this year, cable companies can use subscriber data to deliver TV programming, and ads are a form of programming."

The second impact, though, may ultimately prove to be much more significant in the long run: that's the continuing emergence of entirely new marketing applications and channels that would not be possible if not for the infusion of deep, impactful insight on users, business strategies and target customers. Significant anecdotal evidence suggests that these initiatives—including efforts to customize Web landing pages and other site content with offers, marketing messages and brand imagery tailored to individual visitors—represent the next big frontier in marketing interest, since they address the other big challenge that's faced marketers since the Web's early days:

"Now that you've got them on site, what do we do with them?"

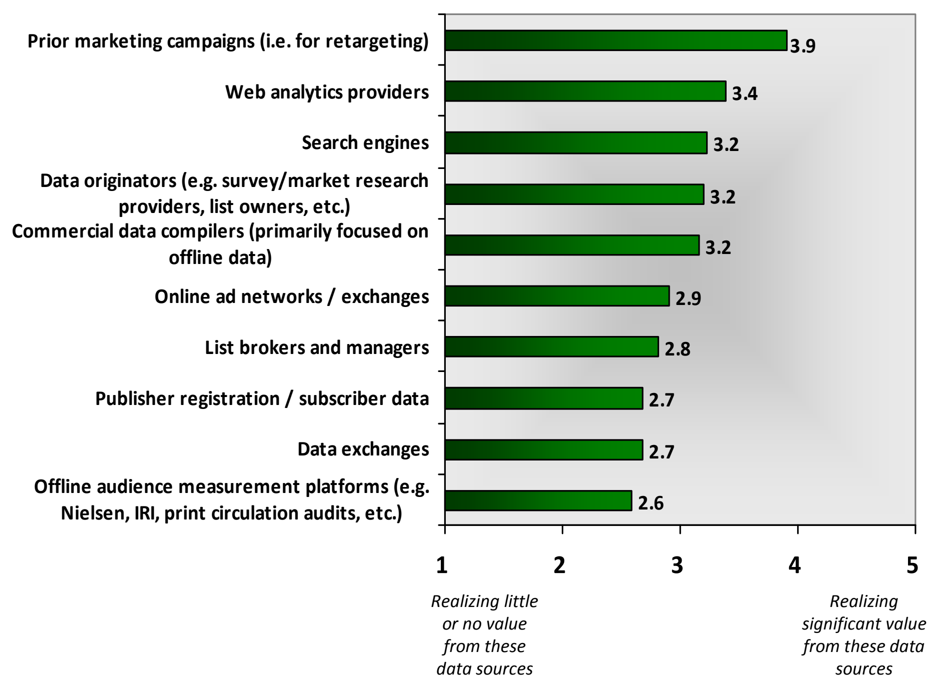
Companies are increasingly coming to view virtually *all* data sets as critical core assets, with insight into such (as enabled by analytics processes and tools) representing an important source of potential differentiation and competitive advantage. Though the same marketers are anxious to make use of the burgeoning quantity of "unstructured" information being generated across the Web, most remain hamstrung by inefficient data management infrastructures built to handle "structured" data funneled through a well-defined set of channels.

The development and enrichment of new marketing channels—driven by robust, multichannel data—is no doubt significant. But ultimately, that may prove to be only the first step in a much more comprehensive deployment of marketing data for strategic purposes.

That's because the vast proliferation of information—and maturation of both analytics tools and storage infrastructure that make use of such assets—has likewise driven demand for companies to use marketing data (in concert with other information) to make more informed business decisions across the enterprise. This may be as straightforward, for example, as enriching customer relationship management (CRM) platforms so as to recognize customers across channels and prescribe specific offers, messages and talking points.

Increasingly, though, organizations are looking for more—integrating marketing data elements into broader "master data management" (MDM) strategies that seek to unify all corporate information assets under unified hierarchies that allow for optimal insight and informed utilization of the underlying information. Though this approach has so far gained prominence almost exclusively among large, sophisticated companies (that have the resources to maintain an analytical and technological edge), many companies of all sizes are now looking at more complex and cutting-edge integration approaches, bringing together virtually all data types—including anonymous records on Web visitor browsing behavior—to inform better conclusions with respect to product strategy, resource allocation, individualized offers and messaging.

To what extent do you believe marketers are realizing value from data obtained through the following sources?



Source: Winterberry Group survey

Three major challenges, however, are inhibiting more rapid and thorough adoption along these lines. First, much of the data that's now being generated across the Internet is effectively "unstructured"—tied to no particular organizational pattern or discernible target customer. This includes vast quantities of information—image and video files, for example—that aren't even alphanumeric in nature, yet present potentially significant opportunity to deliver marketing insight.

Established marketing databases, by comparison, were built around the concept of independent "records"—with each consisting of a customer name and various "cells" comprising the independently known elements tied to that customer. An immediate prerequisite for many data users, then, is learning how to reconcile the two types to make *unstructured* data useful in a far more formulaic marketing environment.

Unifying platforms to integrate structured and unstructured information, however, would only give prominence to the second challenge: establishing means for improving data quality across channels. Today, even the most savvy digital marketers struggle with conflicting collection methods that degrade the usefulness of their digital data sets. The problem is compounded by the absence of universal "best practices" to inform the collection of visitor-provided insights (i.e. ensuring that Web visitors provide truthful information) or guarantee that inferred data falls within generally accepted confidence levels.

The final challenge is far more complex. It concerns the question of data *usage*—including that which is collected both on- and offline. Put simply: *Under what circumstances may an entity collect, disclose and use information on audiences, behaviors and transactions?*

That question has yet to be settled for all data types and applications, but virtually all constituencies to the issue—as well as consumers—are weighing in on the debate, including:

- **Publishers and e-commerce vendors**, who collect data directly from consumers (generally with some level of consent to reuse)
- **Agencies**, who execute on behalf of both advertisers and publishers
- **Data exchanges and audience management platforms**, who provide automated marketplaces for the purchase of anonymous behavioral intent data (exchanges) and serve as an aggregation, analysis and action point for companies looking to use that data (platforms); and
- **Advertisers**, who may claim that by buying access to data—inherently a perishable asset, only declining in quality and usefulness over time—they are in fact buying the data itself.

The final challenge is far more complex: "Under what circumstances may an entity collect, disclose and use information on audiences, behaviors and transactions?"

Understanding *how data may be used*, many say, is a critical prerequisite to deeper integration across channels. Until then, the broader industry will continue to struggle with even more granular questions: *How should data from different sources be valued? And who can best determine whether individual sources—especially smaller, specialized ones—drive disproportionate impact?*

On those questions, panelists said, the jury is still out. "The industry is really still in the process of determining which data sets are commoditized, and which are worth paying for," said Mark Nelson, senior vice president of the corporate partner program at Nielsen Claritas.

The service provider landscape supporting integrated data utilization has yet to fully coalesce. But it is already clear that the industry will grow increasingly fragmented, led by new influencers including online data compilers and exchange platforms, database management vendors, publishers, e-commerce platforms and a wide range of technology-focused performance optimization providers.

In the days when *direct marketing* referred almost exclusively to *direct mail*, managing an efficient data supply chain was as simple as understanding the basic flow of information from the collection point to the envelope. Data *compilers*—usually publishers, catalogers, product manufacturers, not-for-profit organizations or other specialty aggregators—made their proprietary records available for reuse. List *managers* would maintain these databases, *brokers* would package them for the broader market and *data processing* companies would ensure that duplicate and unmailable records were stricken from the list.

The largest and most sophisticated direct marketers often went a step further, employing *database management* companies—often data processing companies that evolved to provide large-scale hosting capabilities—to maintain their large customer and prospect files (and, often, provide licensed access to master consumer databases). Some even employed *analytics* firms to assist with segmentation of massive lists into smaller targeting cells.

Today, the principal role of these established firms hasn't changed much at all. But the emergence of nearly a dozen new channels that may serve as one-to-one marketing levers—and the need to fuel these media with a fresh, robust stream of information—have given rise to a vast new landscape of service providers that are increasingly competing to control **content** (including data, graphics and other elements critical to campaign execution) and **channels** (the means by which the data flow from source to campaign execution).

Reconciling the two groups is not always easy, not least because the nature of offline data differs significantly from that collected on the Internet. In the direct mail-driven world, the terms "data" and "name-and-address" could generally be used interchangeably; "rich" data sets were those known to be both accurate and imbued with substantial additional information—typically known and inferred detail on demographic and psychographic elements associated with the subject consumer.

Data-driven service providers are increasingly competing to control content (the data itself) and channels (the means by which data flow from source to campaign execution).

In the online realm, names and addresses are a luxury that marketers only rarely enjoy. Though some platforms (registration-driven Web sites and social media platforms, for example) provide a means for collecting specific *audience* data, far more interest and investment dollars have accrued to *behavioral* information—the valuable insight into consumer Web browsing activity that reveals much about purchase intent, personal interests and other motives of interest to advertisers.

Needless to say, monitoring consumer browsing behavior is a risky business. But the imperative to track such activity anonymously—with the ultimate goal of serving up targeted ad messages that are based on *objective* analysis of Web activity, rather than *subjective* insight into personal background—has opened

The Evolving Data Ecosystem: Suppliers, Roles and Delivery Channels

	Who?	Originator/ Source	Compiler	Distribution Manager	Optimizer	Primary Delivery Channels
Established	Offline Publishers / Catalogs	✔				
	Specialty Research/ Data Aggregators	✔	✔			
	Data Co-Ops		✔	✔		
	Database Hosting/ Mgmt. Providers		✔		✔	
	List Managers / Brokers			✔		
	Data Processors / Hygiene Providers		✔			
	Agencies			✓	✓	All
	Analytics Consultants / Tech. Platforms				✔	All
Emerging	Affiliate Networks	✔		✔		
	Online Publishers / E-Comm. Merchants	✔				All (Except)
	Data Exchanges / Audience Mgmt. Plat's		✔	✔	✓	
	Ad Exchanges / Networks	✔		✔	✓	
	Web Analytics Platforms	✔			✔	
	Demand-Side Platforms		✔		✔	
	Supply-Side Platforms		✔		✔	

Key: = Broadcast; = Direct mail; = E-mail; = Mobile; = Online Display Advertising; = Print
= Search; = Social Media; = Teleservices; = Web Site Optimization

✔ = Representative of virtually all providers; ✓ = Representative of many providers, but not necessarily all

Originator/Source: collects data from original consumer sources or aggregates inferred insight from multiple original inputs
Compiler: aggregates multiple sources into larger data sets and perform basic integration, standardization and hygiene to enhance the usability of that information
Distribution Manager: establishes efficient markets for the deployment and utilization of data
Optimizer: applies analytics to both segment and derive additional insight from established data sets, thus making those sets more impactful for a wider array of marketing applications

up vast opportunities for service providers and technology developers to acquire, aggregate, optimize and repackage data in new and innovative ways.

For that reason, today's digital data ecosystem includes:

- **Data exchanges,** that provide automated platforms for marketers to bid on anonymous behavioral data they believe correspond to the best prospect customers
- **Ad networks and exchanges,** that aggregate and repackage display inventory for auction, trading back information on site visitor behaviors as an incentive
- **Web analytics** platforms, that deliver insight into on-site browsing behavior; and both
- **Supply- and demand-side platforms**, that work with publishers and advertisers, respectively, to enhance the efficiency of their online media buys and performance of their targeting efforts.

Given that degree of complexity, many still struggle with basic questions of "where they stand" in the new data ecosystem. For "established" players, the challenge is to remain relevant in a world increasingly being driven from online quarters.

"I think list brokers have a great opportunity here," said Joseph Pych, CEO of NextMark. "They are experts at matching marketers with their audience. But they need to redefine themselves as 'media buyers' or 'audience buyers' because the list broker title puts them in a box. They need to get the tools and training to deliver on this new role."

"You look at this new ecosystem and you have to be overwhelmed by the interaction and interactivity between these players.... You want to reach the consumer in the best way possible, but you can't make sense of all this."
— Mark Nelson
SVP Corp. Partner Prog., Nielsen Claritas

"Emerging" companies, by contrast, must develop product strategies that account for rapid changes in the market and risks related to regulation ("Will I always be allowed to collect and distribute this kind of data?") and marketer acceptance ("Are we confident that marketers will continue to embrace data to drive display advertising? Or will they revert back to other media—as they have done before?")

No matter how you slice it, one thing is clear: The market remains immature.

"There's no Rosetta Stone for what everything [marketing data and related tools] mean. It's confusing, frankly," said Scott Hagedorn, CEO of PHD Media. "We stand at a crossroads—whether we want to alter our business model to become a data-driven media shop, or maintain the status quo. Ultimately, is the juice worth the squeeze?"

"Even if you understand how [the data industry] works offline, you look at this new ecosystem and you have to be overwhelmed by the interaction and interactivity between these players," added Nielsen Claritas' Mark Nelson. "If you're an agency or advertiser, you just want to reach the consumer in the best way possible; but you can't make sense of all this. It's not a real simple thing to wrap your head around."

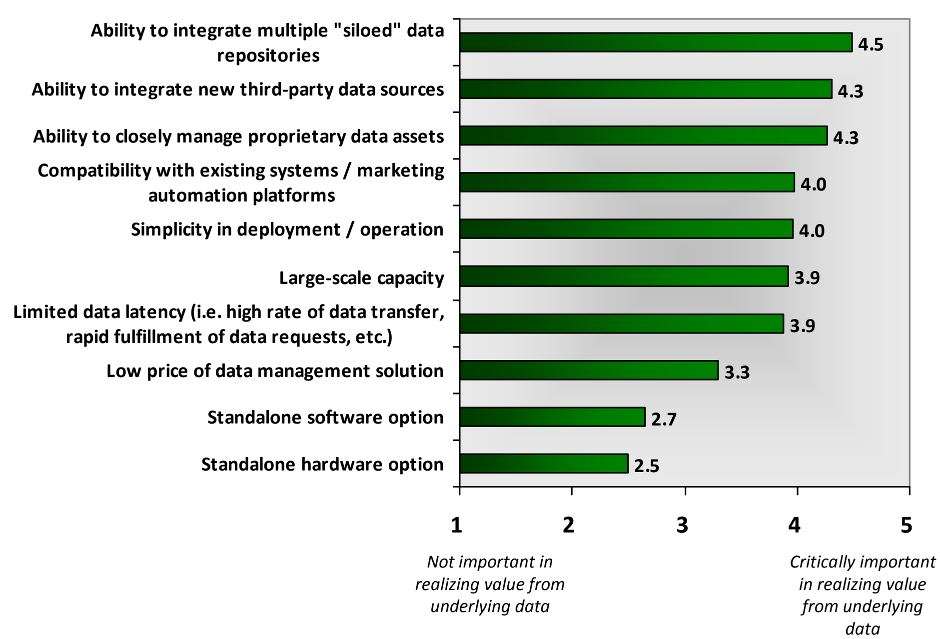
The most fundamental execution challenge facing the users of "integrated data"—that which is derived from both on- and offline sources—is rooted in technology and infrastructure. Both digital and traditional data sources must be compiled, standardized, segmented and made appropriate for use in near-real time, demanding process controls, storage technologies and segmentation algorithms that can efficiently manage high data volumes and progressively "learn" from past performance.

There's no question that the marketing data industry now confronts a series of monumental challenges—linked to technology, consumer acceptance, utilization and a wide range of other issues.

Availability of data, however, is not among them. Marketers are now collecting more information on customers, transactions and other commercial activities than ever before. One prominent study declared, in fact, that companies aggregated more information in 2009 than in all previous years *combined*, outstripping the world's combined storage capacity.

Making efficient use of that vast array of data, on the other hand, remains a significant issue. And the problem looms larger virtually every day, as combined data sets grow larger and new execution media (especially those that inform automated online targeting and media buying activity) demand input processing—derived from master databases that may include billions of records—in periods of just milliseconds.

To what extent do you believe that each of the following are important technical priorities for maximizing the potential value of a marketing data infrastructure?



Source: Winterberry Group survey

The need for large-capacity, high-speed data processing and analysis infrastructures, then, will remain critically important for any marketer (or any marketing service provider) looking to exploit the "integrated" benefits that come with leveraging multiple data sets to inform targeting and other decisioning processes. But approaching this task, panelists said, demands more than simply building a bigger and faster data warehouse. Real competitive advantage, for one, will accrue to platforms that integrate both analytics tools and execution channels as fundamental *inputs* and *outputs* of the central "data bank."

"It's not the data—it's what you do with it that makes a difference," said Martha Bush, senior vice president of strategy and marketing at SIGMA Marketing Group. "People fall in love with marketing automation tools and think that's all they need. However, a solid data hygiene and consolidation methodology is critical and then experience in how to implement from the findings is often sorely lacking."

Even more critical, panelists said: The platforms must be built expressly to integrate disparate, parallel data resources—including those that divide online and offline channels, and those housed in legacy organizational "silos" that are often hard to independently crack.

"It makes no sense to have one data warehouse and analytics infrastructure for digital and another one for offline efforts," said John Nardone, CEO of [x+1]. "[Marketers] making the most rapid progress are those that have reorganized around customer segments or, at minimum, have brought together their various marketing silos with integrated analytics with it."

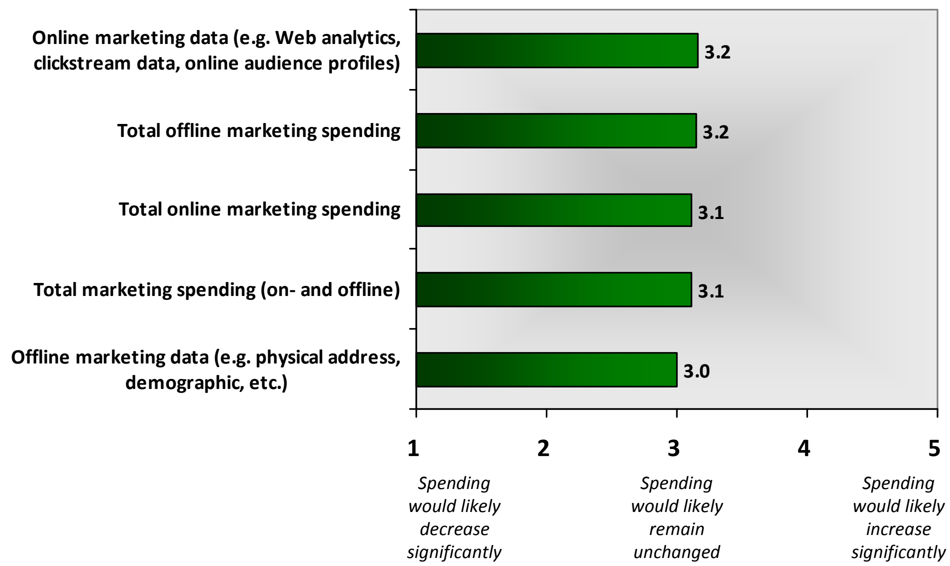
"You really need a multi-terabyte data management system," added Roland Cozzolino, CTO of MediaMath. "It takes a lot more [technology] than people initially perceive."

Among the potential obstacles that are likely to vex users of "integrated data" in the years ahead, one supersedes all others: the still-unsettled question of what standards count as "responsible" with respect to data security, transparency and consumer choice. Marketers overwhelmingly say they want to abide by a set of universal best practices in this regard, but rapid technological proliferation and the continuing threat of regulation are raising concerns about their ability to collect and use virtually *any* online data, especially when that information is embedded with personally identifiable ("PII") elements.

Of all the business issues facing the users of marketing data, only one looms large enough to attract the attention of the public at large: the ongoing debate over how to balance consumer needs for security, transparency and choice with growing marketer demand to compile "digital data" and deploy it across various marketing media.

The issue itself—which ultimately boils down to concerns about privacy, transparency and consumer protections—harkens back to long-persisting questions about information security that have driven the exercise of "best practices" in the data industry for decades. But the very nature of data

Assume that some form of restrictive data-use regulation is passed within the next two years. To what extent do you believe that spending on the following would change?



Source: Winterberry Group survey

collection on the Internet—where "opt-in" usually requires nothing more than a rapid click, and insight is derived through silent behavioral monitoring, rather than the active delivery of a name and address—has raised louder and more persistent criticisms about advertiser motives and the efficacy of potential safeguards.

The issue makes for good political fodder, too. And it should be no surprise, then, that this election year has brought concerted efforts to address online data collection. In an effort to provide deeper consumer choice, for example, the Federal Trade Commission is exploring a variety of options—including a potential "do-not-track" application that would bar collection of data (from individual Web browsers, at the consumer's preference) for the purposes of behavioral targeting. Perhaps more notably, Rep. Bobby Rush (D-Ill.) released draft legislation that would regulate on- and offline data collection, sharing and use. While this measure it not likely to pass into law this year, it has renewed debate on the issue, and would purport to:

- Require all Web sites that collect consumer data—even that do so on an anonymous basis—to make clear that such collection is taking place
- Mandate clear and universal "opt-out" provisions for consumers across all data-collecting Web sites
- Outlaw the "re-personalization" of data that has otherwise been made anonymous.

These proposals have long provoked heated debate, moreso for the new questions to which they give rise—What counts as "data collection"? How clearly must opt-out provisions be conveyed?—than for the intent guiding their implementation.

Many in the industry are taking action to "self-regulate" a series of responsible standards in hopes of averting reactive legislative measures that may inhibit innovation and dampen economic growth. The recent launch of Better Advertising—and the distinctive symbol it would affix to data-driven ad formats—represents just one of many different approaches that marketers and trade groups are adopting to forestall such restriction. But it remains clear that real progress on the regulatory front will require a universal effort to achieve consumer and legislative acceptance of data-driven online marketing, likely involving:

- A concerted effort to educate consumers about the broader value of data-driven advertising (especially from the consumer perspective) and steps the industry is taking to safeguard information, deliver transparency and provide opt-out choices; and
- Development of guidelines for the use and integration of identifiable and anonymous information, with the dual goals of informing more effective targeting measures and protecting consumer privacy across all channels.

"Targeting has to be friendly to consumers," said Adam Gerber, chief marketing officer of Quantcast. "If consumers are scared about how advertisers deliver better experiences, then we're all in trouble."

Conclusion: Toward a Data-Driven Future

Data is the fuel that drives targeted marketing. And targeted marketing—whether you call it "one-to-one" or "relationship-driven" or just "direct"—has long proven to be more impactful than virtually any other advertising or promotional alternative.

For that reason alone, the marketing data industry is almost certain to grow in both size and scope over the coming years. But that growth will force a series of necessary changes in the current data-driven advertising ecosystem, notably including:

- A new **cross-channel industry structure**—one marked by key competencies in analytics and technological integration—that supports deployment of data cross media and is focused on executing campaigns in milliseconds instead of days, weeks or months
- Expanded reliance on the **basic principles of direct marketing**, as well as new **brand engagement metrics** that allow marketers precise and flexible targeting across the entire marketing and sales funnel
- A shakeup in the data-driven service provider landscape, with "winners" likely to include those that are driven by deeply entrenched customer relationships and **integration of both new and established targeting technologies**; and "losers" likely to include those who rely too heavily on older, commoditized business models that do not deliver the same kind of transparent execution across channels.

The challenges still standing in the way of these transformative leaps remain significant. Marketing budgets are often "locked" into traditional delivery media and the "C-level" will to shift them can be fleeting, tied often to organizational culture and specific incentives that spur testing and innovation. Integration technology and analytics platforms, for all their many advances over the last few years, still have to prove their ability to generate results across different kinds of campaigns in full "roll-out" mode, rather than sporadic tests. Above all, though, *scale* remains an issue; a true "digital transformation" demands the availability of enough information to drive large-scale programs across broad audiences.

Ultimately, these roadblocks are likely to fall by the wayside, clearing a way for vast new interest, innovation and investment.

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