THE DATA ECONOMY IS FAILING

How brands can respond to the new data normal

Ogilvy CONSULTING

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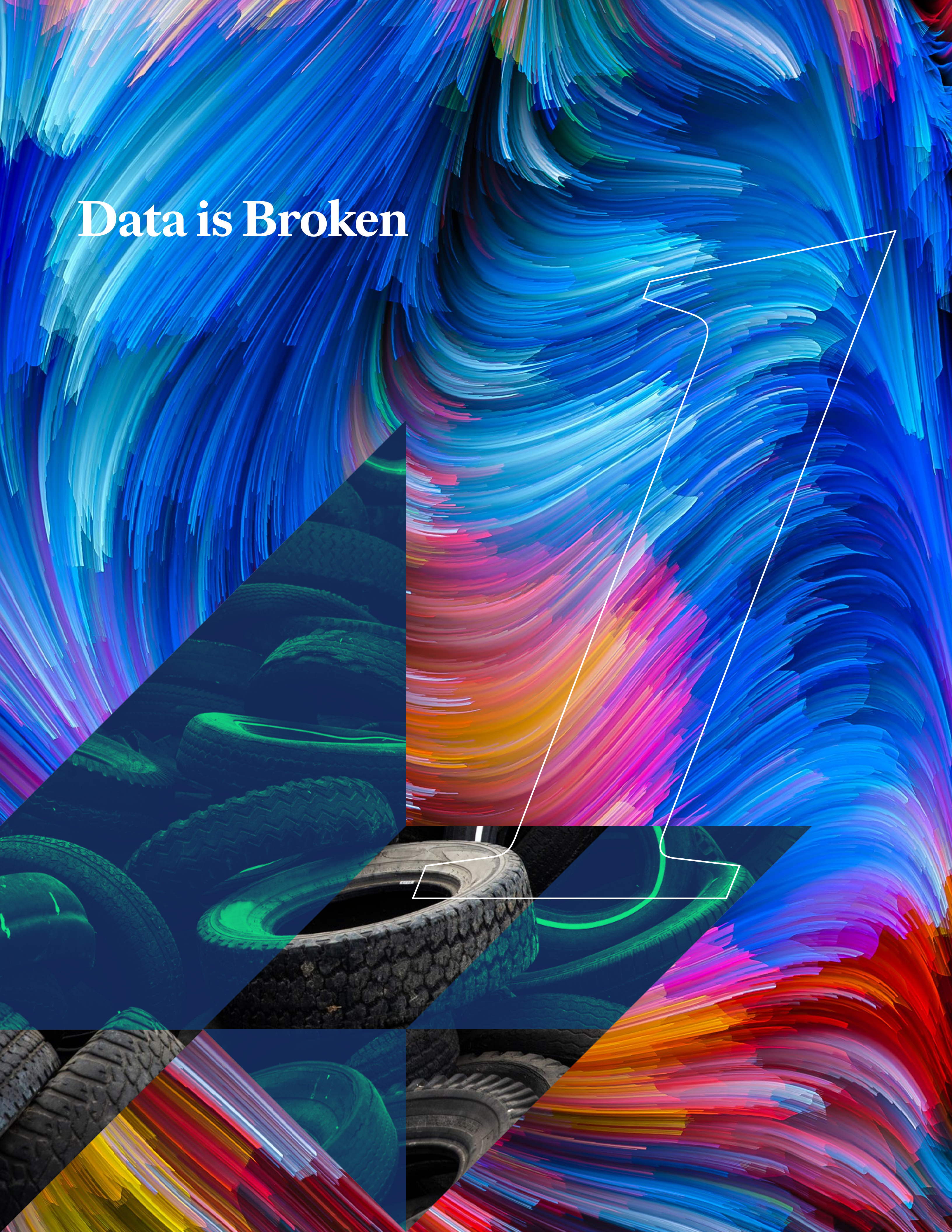
Contents

Data is Broken



The Old Model of Stockpiling Data is Obsolete

The current data economy will not survive shifting consumer behavior, disintermediation, regulation and innovation.

In technology, we like to think of disruption as something neat and sudden. The plow gave way to the tractor, steam to electricity and, today, oil to solar and wind. But the truth is these changes are slow and messy. They happen over long periods of time and are attended by all kinds of change — legal, political and cultural.

But one thing is different in the digital age. Change comes faster, more regularly and with more disruptive consequences than ever before. This isn't just because our technology gets more advanced every year – it's because it's more embedded in people's lives. Technology has direct influence on what it means to be human in the 21st century.

This is especially true in the data economy: the traffic of massive volumes of information generated by billions of digital actors in a connected world

In markets that depend on consumer data – advertising, banking, retail (you know, just a few of the big ones) – changes are coming fast and from multiple angles. The current data economy is shifting thanks to increasingly strict regulation, the disintermediation of incumbent data brokers by Big Tech, and a new technological reality.

The way brands find consumers, communicate with them and delight (or irritate) them are all going to change as a result.

But our good old Internet isn't dying out. Rather, the advertising-driven model on which much of it was born – from old-school publishers to Meta and Google – is about to get a serious reality check from new legislation that empowers consumers and protects privacy rights online.

The relentless pursuit of eyes and clicks will continue, but not in the same way as before. Brands that stockpile heavy, raw (and often inaccurate) data will find themselves unable to compete with those who harvest their own data on native platforms or innovate less resource-intensive solutions. The era of unfettered access to and manipulation of consumers' personal data is over. And why shouldn't it be? As Rory Sutherland, Ogilvy UK's Vice Chairman, recently noted:

"The assumption that more data is always better is a potentially false assumption. ... [I]ncreasing data volumes and variables also increases the chances of false correlations and confounding variables, causing people (and machines) to intervene in the wrong place."

More data doesn't necessarily mean better results. But better data does. And we get better data by focusing on specific types (i.e. behavioral vs. attitudinal, as Rory Sutherland has often argued) and by securing the meaningful consent of the users who generate it.

The current data economy cannot and will not last. And its next iteration won't be coming as slowly as the invention of the wheel. To keep pace, any brand with a vested interest in knowing their consumers – i.e. every brand – needs to understand the extent of the paradigm shift, as well as the new opportunities it presents.

The New Data Normal

From Data Hoarding to Data Connoisseurs

We'll just come right out and say it: brands are addicted to data. While the digital revolution has enabled brands to serve consumers better, the relentless pursuit of data is now at an impasse. Because whether it's first-, second- or third-party, the imperative has always been to get more. Buy it, trade it, harvest it any way you can, but above all, *get more.*

This is a problem for both sides of the ecosystem: consumers, whose privacy is easily infringed upon, and brands, who pay exorbitant sums to process various types of data and/or pay up when they mess up.

When it comes to data brokers and third-party data markets, the biggest surprise is that much of what brands are paying for is inaccurate. Professor Catherine Tucker and her team at MIT Sloan have recently shown that the brokers who peddle Big Data are actually selling audience sets that vary wildly in precision and quality.

In her research, Professor Tucker was able to demonstrate that digital profiling is only able to identify a male consumer around 50% of the time. That's a 50% chance you're getting a consumer's gender identity – one of the most fundamental demographic data points coveted by marketers – utterly wrong. According to Tucker, data set accuracy is dependent on the provider and the user characteristics in question. It turns out demographic data is some of the least likely to be accurate.

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It gets juicier: there isn't even a correlation between the price of the data and its accuracy. Nor is the size or location of the data brokerage found to correlate to higher accuracy. (Interestingly, it comes down to how much the prospects in question use the Internet, which means the most accurate data tends to target wealthier households with better digital access.) But the real takeaway is that most of these data brokers traffic in a heavy, resource-intensive and faulty product.

Thankfully for brands (and consumers), the market is evolving away from third-party practices. This is partly due to higher scrutiny from new regulation, but also the latest flexes of some of the Big Tech platforms.

When Apple introduced the "Ask App Not To Track" feature, it sent shockwaves through the digital economy. Suddenly, every iPhone and iPad user was able to limit the information about themselves that was being funneled to second and third parties. For free apps that rely on third-party data sales, this was a huge blow. According to an article in the Financial Times, Snap, Meta, Twitter and YouTube lost approximately $9.85 billion in revenue between them in the first six months following the change, with Meta taking the largest hit. (For Meta alone, the changes lost the tech giant $250 billion in share value in a single day.)

With approximately 50 percent of Americans subscribed to Prime, Amazon may have the most robust, detailed, valuable data sets of any enterprise on earth.

Google's announcement to phase out cookies – or rather their extraordinary delay in actually phasing them out – amounts to the same move. These giants own the playing fields, the hardware (e.g. iPhone/Android) and the software (e.g. App Store/Google Play) that power much of the data economy. By flexing their platforms' muscles, they can disintermediate the flow of consumer data and consolidate their position as tollkeepers of digital advertising and device-based subscriptions. Apple's revenue alone from this segment grew 24% year over year to $19.1bn in the last quarter of 2021.

Apple and Google, of course, retain access to some of the most valuable first-party data in the world, by virtue of their scale on both sides of the marketplace. But they're not the only ones reaping the benefits of these large scale changes.

Amazon has long understood the value of its first-party data. As a one-stop shop, they collect all manner of behavioral and shopper data that can be monetized in their own advertising model (which generated over $31bn in 2021). With approximately 50 percent of Americans subscribed to Prime, Amazon may have the most robust, detailed, valuable data sets of any enterprise on earth. Like Google and Apple, Amazon owns a playing field, whose consumer data channels will only proliferate as they expand through acquisition. (The most recent acquisition of One Medical is only their latest foray into acquiring healthcare data, for example.) By owning and acquiring so much data on their own turf, Amazon is able to dictate who thrives on their platform (including their homegrown and white label products, which has gotten them into well-deserved trouble in the past).

Any retailer with the requisite scale on their e-commerce properties can do exactly the same. Walmart, Target, Nordstrom – these are just some of the big retailers who have launched their own digital advertising and media businesses using troves of first-party data. Like Amazon, Walmart knows a lot about what its consumers buy and how they behave across a range of verticals.

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In response to these moves and increasingly strict regulation, brands have quickly become wise to the value of their own first-party data. Those who have the resources have begun to take matters into their own hands by assembling individual customer data platforms (or CDPs), which simply describes the siloed picture of individual consumers that brands attempt to maintain.

Anyone with a website, app, social media presence or other owned channel now has a reason to assemble everything they know about consumers into one place.

CDPs have exploded in popularity in the past couple years. And while, in theory, they represent a powerful source of truth about each of a brand's individual customers, they also present many of the same challenges as the old third-party game. They tend to silo information about their consumers, resulting in an incomplete view of targets. They're also resource-intensive to manage, potentially inaccurate (depending on the scale of the brand), and still subject to the intense scrutiny of changing legislation.

These last points are not just a bit of industry moaning. Estimates show that the financial burden for data collectors of every shape and size could reach $1tn in the coming years. And it's not only because brands have to comply with more complex legislation – it's because many of the systems currently in use were not built with the new regulatory imperatives in mind.

Even a technological behemoth like Meta has shown itself ill-equipped for the coming onslaught of data regulation. A leaked internal memo recently demonstrated the panic amongst Meta engineers about tracking the origin and intended use of every piece of information Meta collects on its users – including, of course, its very valuable first-party data. The authors of the memo used a particularly apt metaphor to describe their internal reality:

> *"We've built systems with open borders. The result of these open systems and open culture is well described with an analogy: Imagine you hold a bottle of ink in your hand. This bottle of ink is a mixture of all kinds of user data (3PD, 1PD, SCD, Europe, etc.) You pour that ink into a lake of water (our open data systems; our open culture)…and it flows… everywhere," the document read. "How do you put that ink back in the bottle? How do you organize it again, such that it only flows to the allowed places in the lake?"*
>
> – ABP Privacy Memo (Meta, reported by VICE/Motherboard)

Obviously not every brand operates with the complexity of Meta's data systems. But as consumer information continues to proliferate, and regulation becomes more widespread and impactful, complexity will naturally increase. If Meta doesn't have the technological wherewithal to keep up with incoming regulatory demands on its first-party data practices, how will other, non-specialist brands fare?

We can't all be first-party data wizards. While many in the data economy have woken up to the inaccuracy and inefficiency of third-party data collection, the current CDP alternative is only a short-term and resource-intensive solution. First-party data is heavy, expensive, and vulnerable to regulatory scrutiny. It also lacks dimension: if Nike or Reebok only know my shoe size and my favorite colors, that doesn't necessarily lead to a deeper customer relationship. True value comes from combining high-quality (i.e. consensual) data sets from disparate sources to gain a fuller picture of targets.

It's time to invert the CDP model above, by placing consumers back at the center of data collection and analytics. The result would be a data economy that works harder for consumers, while freeing brands up to focus on innovating around deeper, more rewarding consumer relationships.

A New Playbook

The Playbook Already Exists

Open banking shows us what happens when consumers are given more control over their data and brands are forced to share it.

By leaning into similar market disruptions, innovators in the financial services sector have shown that a siloed framework in which every brand gate-keeps consumer data is not necessarily the most valuable model. It's worth digging into the history and current outlook of this recent experiment to search for similar lessons.

The advent of Open Banking around the globe has prompted a domino-effect in financial services innovation. In the UK and EU, for example, recent legislation mandated the liberation and sharing of customers' data between financial institutions (PSD2). While many incumbent banks initially resisted the change, the current market winners have shown that embracing an open data framework yields significant returns. (BBVA is one notable example.)

The advent of Open Banking around the globe has prompted a domino-effect in financial services innovation.

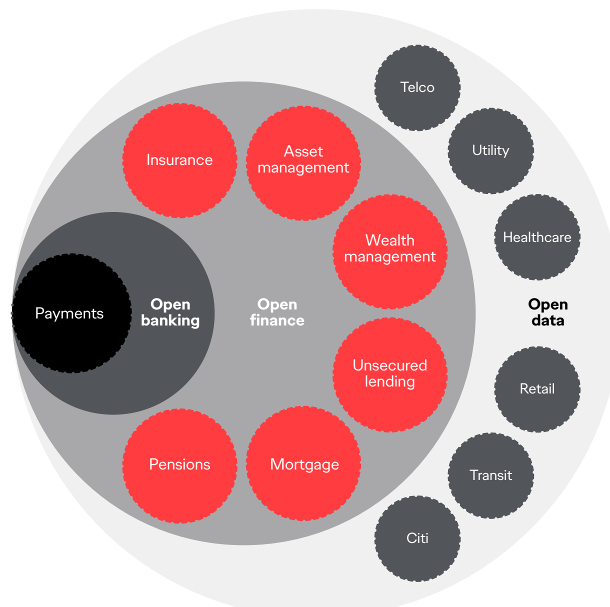
Open Banking was instituted because it benefits both banks and customers. Empowering customers to aggregate their financial data and enabling switching and sign-up for new products has proven to be a boon for companies across the financial industry. For banks, deeper knowledge of the customer fuels a more personalized experience as well as pressure to improve the quality of their technological integration. It makes banks more competitive.

The infrastructure of Open Banking relies on Application Programming Interfaces (APIs), which act as bridges between different providers of financial services. These APIs create opportunities for different companies and institutions to partner whenever a customer consents to the sharing of their financial data. In the US, Plaid is one of the best and most-cited examples. Plaid helps companies of all kinds innovate around financial data by allowing customers to share it.

What many people did not foresee, however, was the effect this new normal would have on products beyond its original use cases (e.g. switching current accounts and data aggregation). In many nations, financial data sharing has led to the creation of scores of new fintechs catering to every possible financial need. Insurance, mortgages, wealth management, investing, financial literacy, lending, pensions – all of these have seen surges in innovation and competition in the past five years. Taken together they are now commonly referred to as Open Finance.

In the UK alone, entirely digital banks like Monzo (valued at £3.7bn) have popped up and developed highly competitive relationships with millions of customers thanks to a superb customer experience.

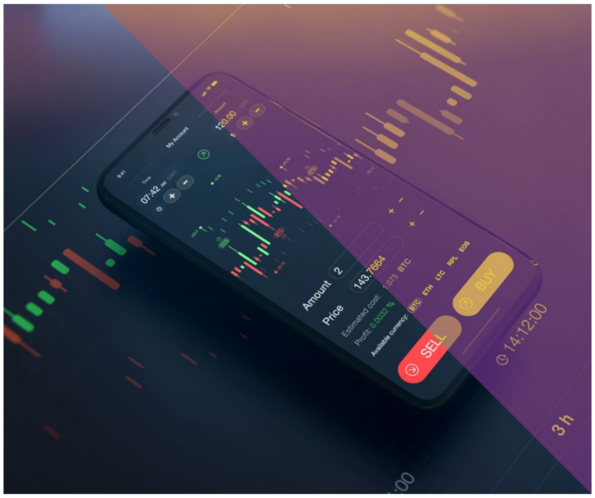
Revolut has accomplished a similar feat across the EU. Both have evolved from their original value propositions (digital current accounts and payments, respectively) to offer a suite of banking services like savings, lending, and business banking. Open Finance creates more opportunities for innovators like Monzo, and their direct relationships increase trust and average product holding with their consumers.



Source: Forester Research, inc

But the real prize, the endgame of all this innovation and data sharing, goes one step beyond Open Finance to an Open (Financial) Data economy. Travel, utilities, healthcare, retail – any industry that benefits in knowing more about consumers' finances (i.e. many industries) now has the opportunity to partner with the channels through which that financial data moves.

Open Data is also better for consumers: it offers more control over who gets to use our information and in what capacity. And because of the intense regulation around financial data, it demands that compliance be built-in. Many of the institutions who are capable of mounting these kinds of innovation efforts enjoy significant levels of trust (i.e. incumbent banks). But the proliferation of fintechs has shown that customers are willing to play ball with new entrants as well.



The global Open Banking market is estimated to be worth around $20bn in 2022. And the number of successful API calls – i.e. the volume of interactions between open financial services – is in the tens of billions (5bn in the UK alone). The market is evolving toward this collaborative framework because it creates more growth and works harder for all sides of the marketplace.

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Of course, what has worked with financial data will not necessarily work with other forms of data. We can't simply copy and paste PSD2 legislation into every other form of potentially valuable data (e.g. healthcare, travel, shopper, or streaming data). But the underlying logic is universal: an open data framework facilitates communication between brands, consumers, regulators and innovators. It is the most promising answer to the current regime of poor, mismanaged, and manipulated data, the burden of which falls primarily on the consumer.

The Future of Consent

The Future of Data is the Future of Consent

The future of the data economy will be driven by consent. But "accepting all cookies" isn't going to get brands or consumers where they need to be.

Brands, advertisers, Big Tech, and data brokers have all guarded their stockpiling approach to data jealously, just as incumbent banks did when PSD2 passed.

The other significant roadblock has been the dislocation of the consumer from the data sharing economy. The user, who is the target at the heart of so much digital economic activity, has not been empowered to play a role in sharing their data with the brands they trust and want to serve them better.

We need to rethink how we approach the concept of first-party data, because it isn't the only option out there.

With consent built in, zero-party data empowers the consumer to be an active participant in the value exchange.

In the increasingly pressurized regulatory environment brands operate in, we believe the future lies in **zero-party data**, or data that a consumer or user willingly shares. With consent built in, zero-party data empowers the consumer to be an active participant in the value exchange.

As legislation and regulation make it easier for consumers to control their many disparate strands of personal data – whether it's from Airbnb or Amazon – brands must position themselves strategically. That means building the trust that encourages consumers to share their multidimensional sources of data in ways that benefit all sides of the marketplace.

This new normal is not far off: thanks to cultural, legislative and technological changes, consumers will soon be empowered to take control of their personal data. The potential upside for brands is an incredibly rich portrait of individual consumers, which avoids running afoul of regulation or legal strictures.

But it only works if consent is built in. It all only works if there's a "Plaid"-like platform for consumers' personal data, whatever type it may be.

The current mission at Caden is to build that mechanism. If we can convert first-party data into zero-party data, in a way that's efficient for brands and valuable for consumers, we can help all sides of the data economy.

The inefficiencies, the risks, the breaches of privacy – these don't have to exist if consumers are at the center of the model. If they are empowered to tell brands what they want them to know and how they want to be seen.

On the other side, brands will necessarily be capable of streamlining some of their most resource-intensive processes, including advertising, targeting, segmentation, customer experience personalization, market research and consumer insights. Not to mention the opportunity to innovate à la Open Finance with new market entrants and partners.

The world has been addicted to data for the past two decades. As we enter a new phase of technological and cultural change, brands have a choice to make: they can wait to hit rock bottom (which will be costly, both financially and reputationally) or they can stand up, dust themselves off, and make a change by empowering customers to tell a brand what they want.

Acknowledgements

CARLA HENDRA
Global CEO, Ogilvy Consulting

Carla Hendra is the Global CEO of Ogilvy Consulting and has been at the forefront of strategic innovation for brand and business for over 25 years. Carla lives in New York City.

Carla began her career in database marketing in financial services, e-commerce and publishing, applying many of the same techniques that have become more sophisticated and algorithmic, but which essentially depend on "knowing the customer". She is deeply invested in the data and privacy debate.

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JOHN ROA
Founder & CEO, Caden

John Roa is Founder & CEO of Caden. He is a lifelong entrepreneur, technologist, philanthropist, investor and author. John lives in New York City.

Caden is debuting the first Open Data platform. To date, brands collect first-party, second-party and third-party data on consumers to create internal Consumer Data Platforms, creating siloed profiles of each user. The Caden platform breaks down those walls, allowing for users to collect various forms of disparate data from the brands that they interact with in their digital lives. In this "zero-party data" future, brands will be able to provide a more personalized and context-driven experience, with the user squarely in the center.

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This is second in a series of three papers on the future of data, privacy, technology and brands jointly published by Ogilvy Consulting, the global innovation arm of the Ogilvy network, and Caden, an open data startup creating new consumer products to empower both customers and brands.

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