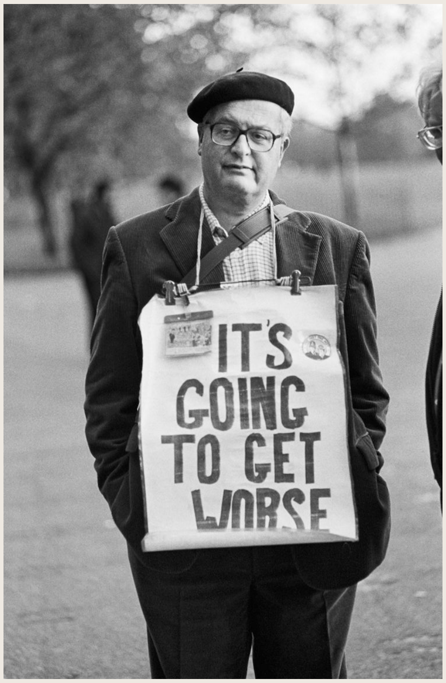
The Broadsheet

Q1: State of Media

Doomsday
gut-check
edition



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BROAD
SHEET

A DIRE OUTLOOK

- At AdExchanger's Industry Preview event on February 7, 2023, Richard Kramer and Rocco Straus of Arete Research delivered a presentation that rocked the room and stimulated lots of conversation.

- Arete's presentation helped to crystalize a broader current of pessimism that has been slowly bubbling to the surface since advertisers tightened budgets last year. While Arete's analysis stirred controversy, they were not saying anything that Broadsheet has not heard from others in private settings.

- According to this general view, the industry can expect:

    - Declining ad spend
    - Tough times for independent ad tech
    - Underwhelming growth for CTV and retail media
    - Mounting privacy regulations
    - Further concentration of power for walled gardens

- Others contend that the industry is simply experiencing a transition to a more mature phase, and that the short-term corrections are simply a bump in the road toward future growth.

We wanted to take these issues head on, looking at both sides of the argument.

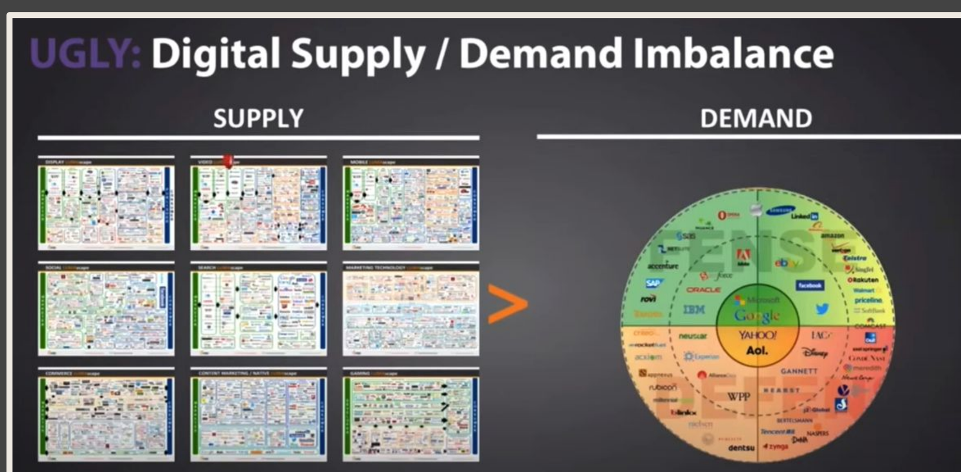
This issue of *The Broadsheet* Seeks to bring clarity to a few of the most active and consequential points of debate.

1/ A Reckoning for Independent Ad Tech?

- Pessimists will point out that independent ad tech (ie. everything outside the walled gardens) is headed for decimation, squeezed out as buyers and sellers consolidate and move closer together.
- They contend that the industry is oversaturated with redundant companies that do little more than siphon value out of the system – and that they will face a reckoning in the coming year.
- The rumored separation of Google's buy-side and sell-side businesses (a potential result of antitrust action) would only accelerate that reckoning, in this view, seeing that a newly 'independent' Google would still be several times larger than The Trade Desk.

"We've swung from uncapped budgets to a lot more scrutiny, and this has created a zombie movie in the tech space," Kramer said, per AdExchanger's recap of the presentation. "We went from the unicorns to the bubble bursting to the elephant graveyard."

LUMA Partners noted back in 2018 that there are **far more startups than there are strategic acquirers**, a situation that would lead eventually to a "bloodbath" when the music stops.



Luma Partners

While we can't argue with the fundamentals here, we would suggest that the pool of strategics is expanding – especially now to include retailers, delivery apps, and any other service providers that maintain a direct customer relationship. These companies are now media companies – and are looking to bolster their capabilities quickly.

Uber and Lyft Claim Big Gains for Their Ad Businesses

By Patrick Coffee

One analyst said Uber has a significant advantage, comparing its ad-growth strategy to that of Amazon.

RETAIL REVOLUTION

Why McKinsey sees 'commerce media' as the go-to media and marketing investment channel of the future

September 14, 2022 • 4 min read • By Michael Bürgi

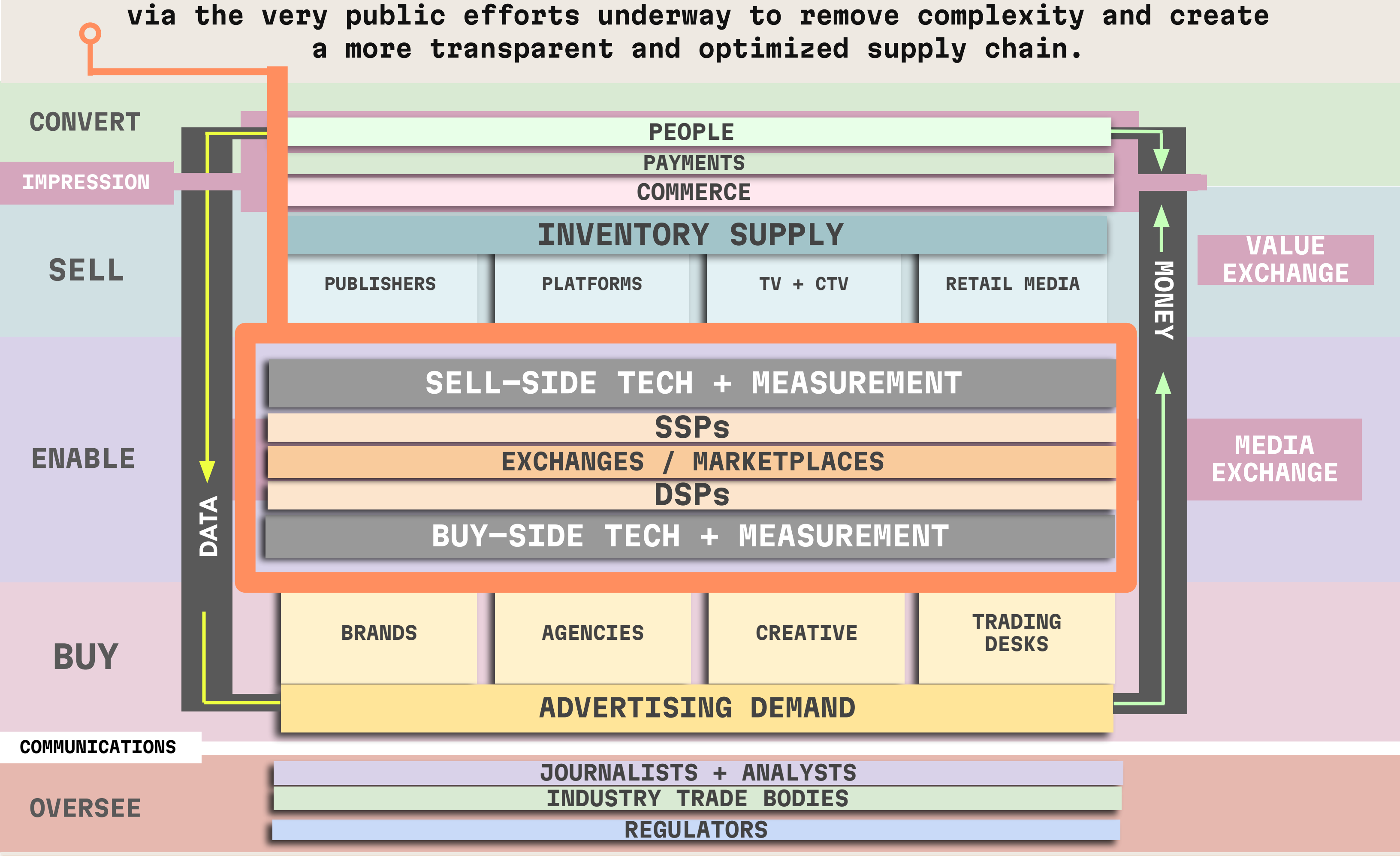
Maturity Curve

Ad tech is growing up

"The maturity phase begins with a shakeout period, during which growth slows, focus shifts toward expense reduction, and consolidation occurs. Some firms achieve economies of scale, hampering the sustainability of smaller competitors. As maturity is achieved, barriers to entry become higher, and the competitive landscape becomes more clear." – *Investopedia*

The "growth phase" of the last decade saw a Cambrian explosion of ad tech and media startups, and now we are entering a new phase of maturity, with fewer, larger players. This point of fact can be interpreted either way by pessimists or optimists.

This maturation will affect the “enablement layer” of the industry, which encompasses the lion’s share of the LUMAscape. M&A will drive some of this trend, but so will organic competition and innovation via the very public efforts underway to remove complexity and create a more transparent and optimized supply chain.



Enablement layer of the industry will focus on value-added services

- We are already seeing effects of this maturation in the winnowing of the SSP market, at the same time as SPO drives a closer relationship between the demand and supply sides of ad tech.
- The central value proposition of the exchange was always aggregation – a key value add in the context of infinite and decentralized supply.
- As more impressions consolidate in premium hedged / walled gardens, the role for enablement becomes less about aggregation and more about added-value services, like data/identity orchestration, verification/brand safety, customized workflows, etc.


PLATFORMS

Yahoo Shuttering Its SSP Is Evidence That Ad Exchanges Are Becoming Interchangeable

By Anthony Vargas

Wednesday, February 15th, 2023 – 1:00 am

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ONLINE ADVERTISING

SPO Is Evolving Thanks To Direct Publisher Connections And A Push For Sustainability

By Anthony Vargas

Wednesday, December 28th, 2022 – 12:45 am

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AD EXCHANGE NEWS

As SSPs Shut Down, PubMatic Details Plans To Grow Market Share

By Anthony Vargas

Wednesday, March 1st, 2023 – 8:52 am

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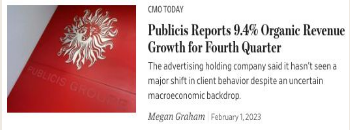
2/ Demand Destruction?!

- One of the most notable parts of Arete's presentation was its assertion that declining growth in ad spend is not cyclical – it's due to "demand destruction," i.e. entire segments of advertisers going out of business or deciding not to advertise.
- As examples, Arete identifies app install / DR ads from apps / casual games, quick commerce, and crypto as categories where "demand destruction" is taking place.
- This assessment stands in contrast to the more optimistic view held by many others in the industry.

Last year's crypto-bowl ads certainly didn't age well – apart from the FTX ad's naysaying Larry David, who is usually right.

Meanwhile, major agencies paint a more optimistic picture…

Positive Q4 earnings and 2023 outlook from holdcos



CMO TODAY

Publicis Reports 9.4% Organic Revenue Growth for Fourth Quarter

The advertising holding company said it hasn't seen a major shift in client behavior despite an uncertain macroeconomic backdrop.

Megan Graham | February 1, 2023

WPP, Like Ad-Company Rivals, Says It Expects 2023 Growth

By Megan Graham

The London-based company said it expects like-for-like revenue less pass-through costs to increase between 3% and 5% this year as marketers keep spending.

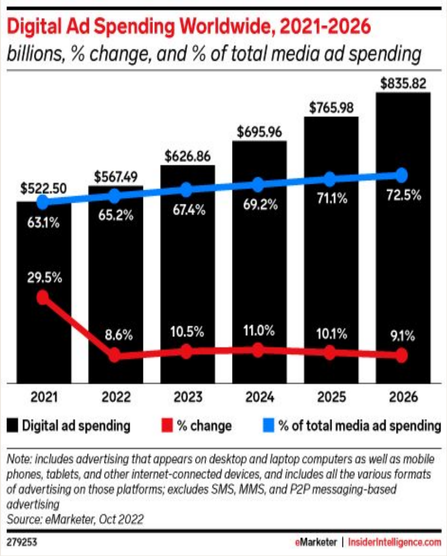
CMO TODAY

IPG Posts 3.8% Organic-Revenue Growth

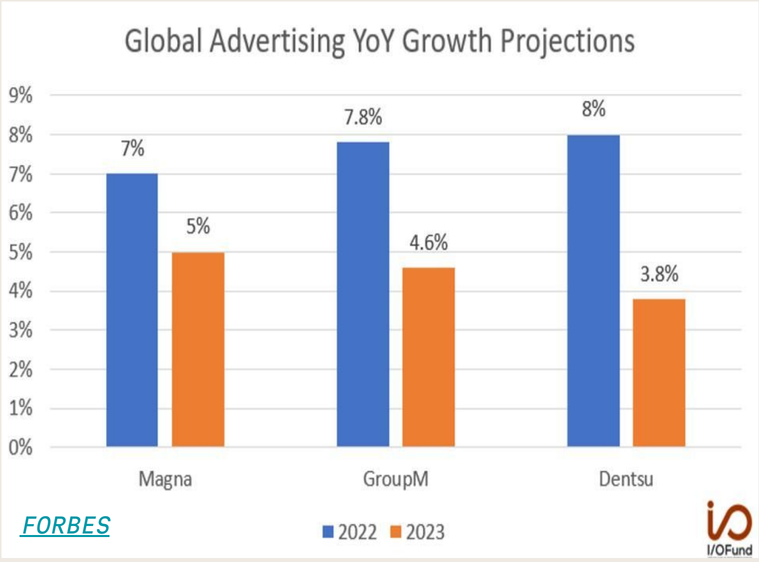
The ad holding company reported organic-net-revenue growth of 3.8% for the fourth quarter, saying that growth continued—albeit at a slower pace—despite a more cautious marketing and media environment.

Megan Graham | February 9, 2023

eMarketer projecting growth – albeit slower – for global digital spend



Agency holding companies growth projections between 3.8-5% for 2023

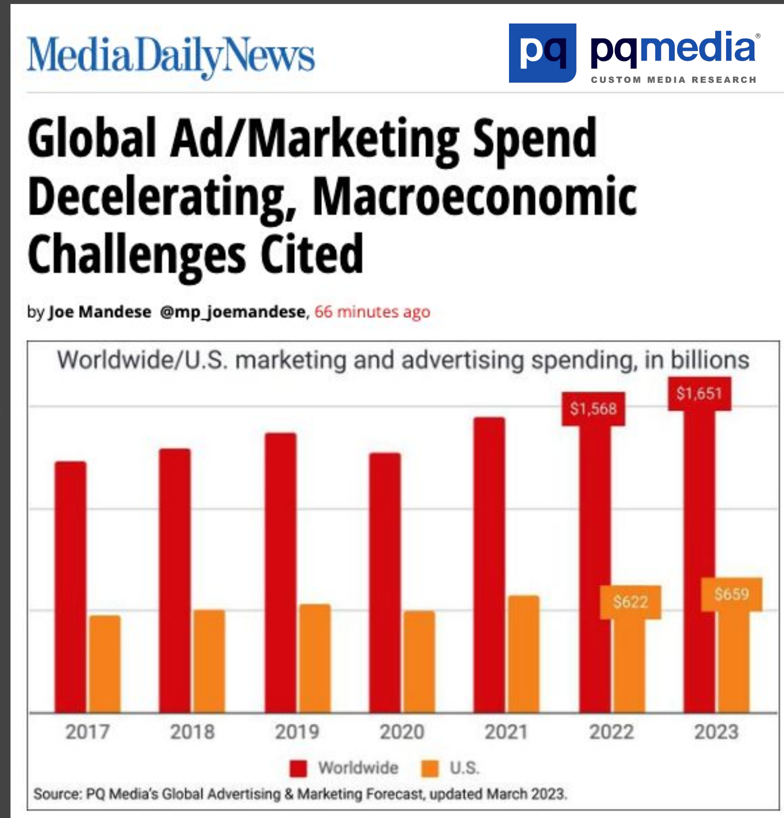


Evidence of *growth deceleration*, not demand destruction

"Global advertising and marketing spending continued to rebound in 2022 -- rising 7.9% to $1.568 trillion in 2022 -- but it will decelerate slightly this year due to macroeconomic challenges, according to the 2023 edition of PQ Media's annual forecast.

"'While we expect slower full-year expansion in 2023, fears of a broad-based global recession have subsided somewhat,' PQ Media CEO Patrick Quinn, explained."

- [Joe Mandese in MediaPost]


MediaDailyNews

Global Ad/Marketing Spend Decelerating, Macroeconomic Challenges Cited

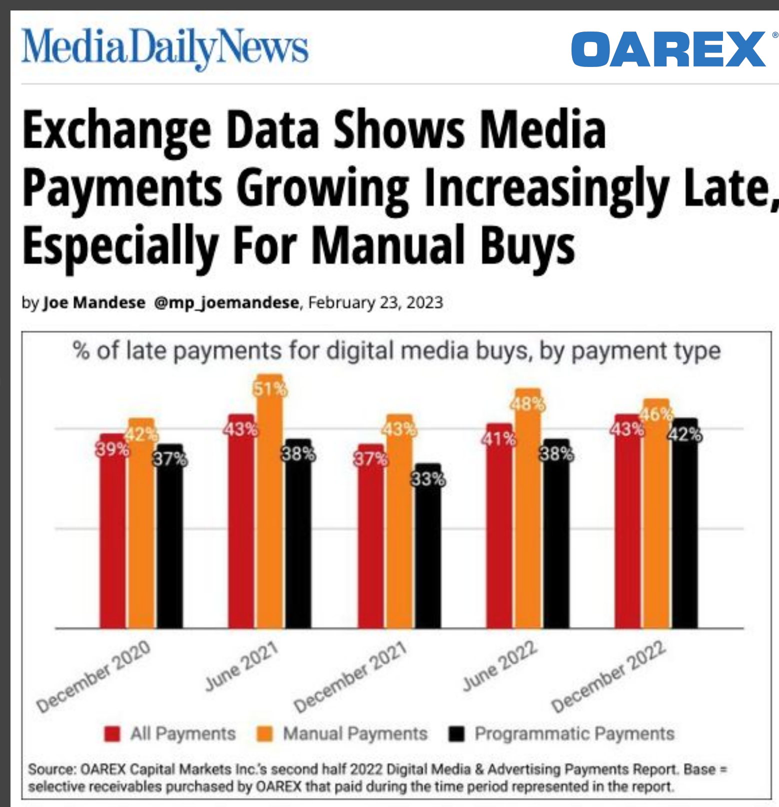
by Joe Mandese @mp_joemandese, 66 minutes ago

Mediapost / PQ Media

"In another indicator of the impact that weakening economics has had on the ad industry, payments to the media have grown increasingly late over the past two years, according to new data released by online ad-revenue exchange OAREX.

The data, which tracks digital media payments made both manually -- directly by ad agencies or clients -- as well as programmatically via ad tech middlemen, shows all forms of media-buying payments have been slowing down for digital media, but especially for manual ones."

- [Joe Mandese in MediaPost]


MediaDailyNews

Exchange Data Shows Media Payments Growing Increasingly Late, Especially For Manual Buys

by Joe Mandese @mp_joemandese, February 23, 2023

Mediapost / OAREX

For now, there is a consensus that aggregate ad spend will grow at a slower pace this year. We see a situation where macroeconomic factors contributed to a cautious pullback of budgets, causing growth to slow. Many of these decisions were made last year in anticipation of a much harsher economic climate than what has since transpired. Several reasonable and smart analysts argue that ad spend has already hit its bottom and will soon trend upwards. Only time will tell.

This data does not present clear evidence of destroyed demand or deep wipeouts to come. It looks for now like a short term correction.

3/ Is the potential of First-Party Data overstated?

- Signal loss figures prominently in the pessimistic outlook. The sunsetting of the cookie, the loss of MAIDs, and new privacy restrictions are all conspiring to suppress conversion and ROAS.
- Pessimists see little progress toward finding alternatives in the form of identifiers or systems for leveraging 1st-party data.

The identity ecosystem is still in a nascent stage, with key technologies still only in experimental testing.

The real market test for identity is yet to come.

We will learn a great deal about the cookieless future when it arrives.

WHY 1PD HASN'T TAKEN OFF (OTHER THAN THE FACT THAT COOKIES ARE STILL HERE)

→ **The potential for 1PD is real - and the business case for investing in it is already ironclad within existing market conditions. But in Broadsheet's view, as long as cookies are still available, most of the industry won't have the pressure or impetus to really tackle what remains a cost-intensive challenge.**

PUBLISHERS	PLATFORMS / VENDORS	ADVERTISERS
- PUBLISHERS ARE UNIQUE IN THAT THEIR INVESTMENTS IN FIRST-PARTY INFRASTRUCTURE MUST PRECEDE ANY RETURN ON THOSE INVESTMENTS. THEY MUST INVEST (DEEPLY) AHEAD OF REVENUE, MAKING THESE INCREDIBLY HIGH-STAKES AND RISKY DECISIONS. - PUBLISHERS WILL FEEL THE PAIN DIRECTLY IF ADVERTISERS AREN'T READY TO TAKE ADVANTAGE OF WHAT THEY'VE BUILT.	- PLATFORMS + VENDORS FACE A HUGE BURDEN OF MARKET EDUCATION, LONG SALES CYCLES, AND ARE ALSO IN A POSITION WHERE THEY MUST BUILD PRODUCTS AHEAD OF WHEN ANYONE IS EXPECTED TO BEGIN USING THEM IN EARNEST. - THEY ALSO STRUGGLE WITH DIFFERENTIATION - PARTICULARLY WHEN IT IS BASED ON HAVING BROAD INTEGRATIONS AND ADOPTION. MANY ARE CAUGHT BETWEEN CHICKEN AND EGG.	- ADVERTISERS ARE UNLIKELY TO TAKE RISKS WITH THEIR OWN INVESTMENTS IN DATA AND INFRASTRUCTURE; TO A LARGE EXTENT, THEY ARE WAITING FOR EVERYONE TO FIGURE IT OUT FOR THEM. - AT THE MOMENT, 1PD IS STILL AN EDGE CASE, AN EXPERIMENTAL PROJECT FOR THE FUTURE - FOR THOSE FORWARD-THINKING ENOUGH TO ALREADY BE GATHERING 1PD, THEY ARE UNSURE HOW TO HOUSE, ORCHESTRATE AND ACTIVATE IT.

→ **New requirements for 1PD infrastructure impose costs + operational friction**

→ **A crowded and unproven market for identity has led to uncertainty - and paralysis.**

3/ CTV—overhyped?

The argument for why CTV growth is overstated

1. It's highly concentrated
2. Buying will stay in-house
3. Measurement missing
4. Social video is competition

PERFORMANCE CTV IS STILL EARLY

It's also worth remembering that as performance measurement improves for CTV and TV, they are proving themselves to be high-performing channels. It's only a matter of time before that kind of measurement becomes standard and accessible.

The emergence of CTV as a performance medium will upend traditional notions of the funnel and usher in an entirely new demand base for this inventory.

HIGHLY CONCENTRATED

Most of the impressions in CTV come from the large, vertically-integrated usual suspects. But even though there are a handful of major players, they are all walled gardens, and there is a need for integrated services that can help buyers across all these platforms.

BUYING WILL STAY IN-HOUSE

Maybe for now, but that's likely to change, in our view. Agencies and buying platforms can play a major role in reconciling the fragmentation in the CTV space, in helping with data orchestration and measurement.

SOCIAL VIDEO COMPETITION

Social platforms have the users and the deep pockets to make a run for CTV, but as Apple and Amazon will tell you, premium original content is what wins the day. Content is still king, and until social platforms pony up for big production budgets, the competition will not be apples to apples.

MEASUREMENT MISSING

"Missing" isn't quite the word – more like "a moving target." Universal currency is (and likely shall remain) elusive, but there are no shortage of ways to measure CTV – in fact, the main issue is that there are so many.

1/ A Reckoning for Independent Ad Tech?

It's happening, but that's to be expected in a maturing industry. Meanwhile, the applications for ad technology are expanding to a new group of strategics in the form of retail / commerce media. The remaining players in the "enablement layer" of the industry will need to focus more on value-adds vs. just aggregation.

2/ Demand Destruction?

Growth in ad spend is slowing, and some retreat is expected in 2023. But for all the demand that has been destroyed, there is even more demand for omnichannel inventory that will only become activated once performance measurement is in place.

3/ Is the potential of First-Party Data overstated?

The potential is real, but it takes significant – and often prohibitive – time and resources to do it right. The incentive to make the jump just isn't strong enough as long as cookies are still here.

4/ CTV overhyped?

Everyone wants in on CTV, generating a lot of hype and false promises. Beneath all of that, the opportunity is real – not just to transfer linear budgets, but also those previously committed to social, online digital video and display.

Everyone agrees that the industry is undergoing rapid change – beyond the usual. But it's a complicated picture.

For every point where the growth has slowed and the outlook is dim, there are other areas that show promise and opportunity.

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We always welcome your feedback on these reports. Feel free to suggest topics, articles, research, as well as to offer opinions and criticism. Write to Alex Wolf at alex@broadsheetcomms.com

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