CUSTOMER FIRST THINKING PODCAST #6

The State of Digital Advertising: An Interview with Seraj Bharwani, Chief Strategy Officer, Acuity Ads

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 products[1]. 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 spending[2]. Consumers have responded by installing ad blockers, with one quarter of US Internet users now blocking ads[3]. 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.

As the chief strategy officer for Toronto, Ont.-based Acuity Ads, Seraj Bharwani recognizes the urgency 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's helped shape the digital strategies for many top consumer brands, among them American Express, P&G and AT&T. In this interview he shares his perspective on the past and future of digital advertising, as well as his ideas for industry reform. I started by asking him about his experience in those formative years in the mid-90s when people were still scratching their heads about what the web was really all about.

1. Forrester Data Consumer Technographics North American Online Benchmark Survey, 2016.
2. AdAge Fact Pact 2019
3. eMarketer, "Demanding a Better Ad Experience", Dec.2018.

Bharwani: I can't really say that I knew how this whole thing was going to evolve, but there were certain things that I was noticing from the early clients that we were having conversations with. And one of the really first conversations I remember was with a gentleman named Leon Gorman, who was literally the granddaddy of L.L. Bean. And I remember having a meeting with him, very excited about all what the internet was going to do and so forth. You know, when you first get exposed to the browser and the things it can do and so forth. And so I'm telling Leon, essentially, he was sitting across from the table, about how we're going to change L.L. Bean and what all the things could actually happen for by taking L.L. Bean online. Leon was of course very courteous and polite and said nothing, very quiet, and so I was progressively getting more nervous, and it wasn't...I didn't know what he was thinking. And so, then I said, "Leon, what do you think?" And I paused. And so Leon takes that L.L. Bean catalog that is on the table and slides this across from the table 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?" Well, seriously, I mean, I have no idea. Like, I mean, he was so numbers oriented and at that time...

Shaw: He was a direct marketer.

Bharwani: Yeah, he was a direct marketer. He knew exactly what he was doing about things. He had an amazing channel working for him. We had no numbers. We had no proof points, there were no case studies at the time, you know, there were so few sites out there, and commerce was like a distant future at that time. So, it was very difficult to give him a concrete and sort of what we could do for him from an ROI perspective and so forth. But you know what? It ended well, that meeting ended well. It was Leon who gave me why he would want to be on the internet. And he said, "Let me tell you why I want to be there." And he said, "My file, 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, and that is the reason why I would want to be there." And there were many other things we actually did, but here's the big thing that I learned working with L.L. Bean and Dell and American Express and others ... the whole concept of a business having business hours just completely got obliterated. Once you went online, you were always on. And the expectation was that you needed to have superb responsiveness and if you weren't responsive, the customers or the prospects would absolutely punish you on social media or wherever. They would just go online and talk about how, you know, brand this and this isn't really responding to anything and so forth. And I think that changed the expectation of transparency and responsiveness on businesses once they ran online. Now that I felt had amazing ramifications. Those like L.L. Bean who are already used to direct to consumer model, they migrated much faster and adapted to it and learned from it. Those who were removed and had intermediaries to work with, had, you know, elaborate distribution channels and so forth and they could really hide behind it

Shaw: And they were also afraid of alienating their key distribution channels.

Bharwani: Absolutely. Exactly. Right. Exactly. Yeah. Just a thought that, you know, they might think that all of a sudden you're bypassing the channel, you know, and so forth. So that's the other big hesitation that was there as well.

Shaw: Well, it's amazing, 25 years, how far we've come now. But now here we are, 25 years later, and people are starting to question this whole beast that we've created, not the least of which is Tim Berners-Lee, the very creator of the internet or at least the founder and calling it...in a recent article, he wrote, "...an engine of inequity and division; swayed by powerful forces who use it for their own agendas." So, my question to you is, is he right? And he's got this idea of a decentralized platform which is pretty interesting, and one would have to imagine that if ever implemented, would this disembowel the big tech giants who seem to own the internet? (8:36).

Bharwani: Well, you see, this is the thing, you can count on Tim Berners-Lee to really speak the truth. He has no real vested interest per se so he can really say what he really needs to say. Here is what comes to mind. I don't know, Stephen, if you ever read Marvin Minsky. See, I come from the world. My prior background is in artificial intelligence. And so he was sort of one of my heroes out there, you know, mentors who I could always go back to and read about him and so forth. And here's the thing in the book he wrote called "The Society of Mind." I'll literally quote you what he said in that. He said that, this is literally him, "What magical trick makes us intelligent? The trick is there is no trick. The power of intelligence stems from our vast diversity and not from any single, perfect principle." Okay. So how does that connect to the formation of the internet? If you look at the early days of what was internet, it was ARPANET. So, it was originally imagined as bringing diversity of ideas...

Shaw: A collaboration platform.

Bharwani: It was a collaboration platform. Exactly right. And so, now if you contrast that with the two forces, one is commercial interests and the second tribal interests, so to speak, if you can say it that way. These two have literally taken control of the internet and until we find a way to break out of it and recognize that strength and diversity, I mean, we are going to be in these troubled waters.

Shaw: But what is... Not to...I mean, this is a profound question and everybody's asking this and I'm not expecting you to have the answer to it, more around what direction is this likely to go? Like go back to my, really, my question around Tim Berners-Lee's idea of a decentralized platform, does that... People effectively owning their own pods of data and taking it with them, it's very portable, only allowing access to the people that they trust and want to bring into their lives. Is that a feasible and viable proposition? And will that fundamentally change the character of the internet as it exists, you know, we're going to get to this later, where data intrusion and privacy now has become a significant concern?

Bharwani: It is... Look, this is clearly feasible from a tech perspective, yes, of course, but from a practical, pragmatic perspective, humans, even if they could take control of it, there is effort involved in taking control of it, and if you can count on the 100-year history of how you have seen humans, you know, we generally tend to not necessarily pay attention to things which take effort. If it's effortless to really let your privacy be lost out there and it's easy or convenient, you know, we always trade in favor of convenience. And so, that's really the issue and it's not really the feasibility from a tech perspective.

Shaw: Well, and it's interesting because if you...people are increasingly looking at Chinese society today and how advanced they are with respect to adoption of mobile technology, mobile payments, which are actually rather remarkable. There doesn't seem to be a huge concern in China looking over their shoulder at the specter of data intrusions unless I'm missing something here.

Bharwani: They don't see that, essentially, yeah.

Shaw: And they willingly participate in a online transactional world that surrounds them.

Bharwani: Absolutely.

Shaw: Why is North America so far behind where the Chinese are, do you think?

Bharwani: Well, it's just because they leapfrogged into the mobile screen and that was sort of their first access point. They completely...

Shaw: You mean they skipped the desktop generation?

Bharwani: Completely, that is correct. That simply just isn't a part of it. (12:40)

Shaw: But you look at the biggest internet companies in the world today, most of them are Chinese. And the more advanced ones are all Chinese. Is that just because of the sheer volume of numbers of users out there or is there another explanation for that? I mean, the U.S., of course, has been a center of innovation forever around technology. They seem to be losing their grip on that to the Chinese. What are the implications of that, if you stretched that idea out a little bit? Again, go back to who owns the internet? Who runs the internet? Who runs the infrastructure of the internet?

Bharwani: I think the way to look at it is scale has always mattered. And the Chinese have the scale, without a doubt. So that's one thing that is in their favor. Second is, they simply can't afford to build huge infrastructures, that's just not virtual, is easier to manage and deliver. And so that's the other thing. So those societies, and that includes India as well, by the way, the societies where you have such massive scale and huge volumes, it's so much easier and efficient to deliver things virtually than to actually force going through physical infrastructure or other things. So they adopted these things which were easier and faster. The other things regarding computational language and artificial intelligence and machine learning and so forth, I mean, some of the early pioneers did come to the U.S. and learned from here and essentially brought it back and propagated it really, really fast.

Shaw: Propagated it fast.

Bharwani: Exactly. And they realized that that was a strategic imperative for them where they needed to play a serious role and the Chinese have...the government itself has made, what, 25-year commitments of heavy investments and so forth in their areas.

Shaw: They play the long game.

Bharwani: Absolutely, yeah. And so given that, I'm not surprised that they will continue to push that harder.

Shaw: So, I'm going to take it back down to treetop level now, there's an interest and lots of places to go with that conversation. But I want to come back to the contrast between...and back to my example of the Chinese society really pushing the boundaries of this, and look at how the challenges businesses here are having around digital transformation, and the effort required and investment required and the failure rate actually is astonishing considering the criticality, frankly, of businesses digitizing and catching up, if you will, to their own consumers, their own customers. You've had so much experience working with companies. You've referenced very early on L.L. Bean, interesting example. Why do you think that's been such a struggle for businesses today? And digital transformation is at the top of the corporate agenda, why are organizations struggling still today with that adaptation?

Bharwani: So, I think the recognition of the power of consumer data or customer data was first recognized, as I said earlier, by companies that had to deal directly with consumers. So all this language of the use of data management platforms, of customer management platforms and things like that is...

Shaw: Esoteric?

Bharwani: Yeah. And it sounds that this is such a modern concept of having data available and accessible and so forth. That's the conversation we were having at American Express way back in the late '90s. They already had all of that. For them, they were the issuer and then they were essentially the transactors. All of it was part and parcel of a closed loop advantage that they had. So, data for them was the bloodline for their entire organization and the rate at which the ideas were getting generated, using that kind of data was phenomenal. I always thought that that was like standard practice, and yet in vast swaths of the U.S. industries, that wasn't necessarily the case. And so, that's all a whole new renaissance that's actually coming in. So those who recognized the power of that data, the insights and that used to drive your business were much early in their ability to transition the entire internal cross-departmental issues, but also eventually when they had to drive the entire industry value chains as well. I mean, if you carry that forward, look at all of the issues that P&G is having, the new guys coming onto their corporate board and making case about, you know, how they need to become more nimble and this, that and everything else. Unilever having similar issues, paying a billion dollar for Dollar Shave Club. Why are they doing that? You talk with Keith Weed, the CMO, and I did last year or the year before, and he said, "We just needed to learn what it was like to rapidly innovate in a market where we simply have remained kind of... (18:04)

Shaw: Same old, same old.

Bharwani: Yeah. We've ran it as business as usual for the longest of times. They're running it as like there's a standard value chain and worked with the retailer and all of those things. Well, these DTC guys are coming in and absolutely just obliterating the whole concept of a value chain and they're just dealing directly with the consumer. Look at P&G, they actually bought a, what is, Walker & Company? Same thing, direct to the African American population, the way the value proposition was created and so forth. They were tired of seeing all these products on the shelf that have nothing to do with them, has the consumer completely alienated, and so they had a reason to want to go direct to consumer. I think that is what is ultimately changing the perception. I mean, years ago, way back in 1995, I went and presented to 50 brand marketers at Kraft General Foods, here's an example, when we were Digitas, and I presented to them the power of the internet and all the things it can do and so forth. And the people who are like looking at me as though I was like smoking something. And they were just perfectly happy with the classic region frequency game, that going through television, and that achieved everything that they thought they needed. Why did they need to do anything different? Why did they need to have direct consumer engagement? And so, again, the retailer had most of the consumer data and therefore the thought that anytime you could be disintermediated by DTC players just never even occurred to them that it would ever happen. So, they were all essentially caught off guard, although all of this has happened frankly, quite gradually.

Shaw: And that's, I think been the foot-dragging around...and marketing holds I think responsibility for this because they've had such a channel mindset and have always treated the internet as a channel and not a way of doing business.

Bharwani: Exactly.

Shaw: Which is their lens at which they looked at the medium was completely skewed by the fact that marketing really was only about getting the message out there and not really about collaboration. And if the internet was about collaboration, well, what do we need to collaborate with our customers for? It was a mindset that just has never existed.

Bharwani: Exactly.

Shaw: And that's at the heart of this concept of customer first thinking is the idea that the customer is as much a collaborator as they are a customer.

Bharwani: Absolutely. You know, I mean, I was surprised even by Walmart. Walmart has so much consumer data. They're a retailer. They have to have transaction data and all of that. And so, you begin to wonder. It's like, okay, what were they thinking when Amazon was building up this whole business out there, with 50% of the commerce transaction going through Amazon? If you're Walmart, you are thinking, "Wow, what really happened here?" And still under 5% of Walmart's business is coming from online. What really happened? For years, I remember I was taking consumer products companies to Walmart and Sam's Club and so forth, talking about how we're going to do business with them and so forth, and their thinking was, well, the internet was for them a store. They thought of it, it was just like one more Walmart store.

Shaw: Sure. Extra shelves.

Bharwani: Just a few more shelves up there for people who are online. That's really all they were thinking about it. This is a limitation of mental model and thinking really what the indications were, which is different. For them, there wasn't really a shortage of customer data. They had the data, they knew what was going on and they had the money and the investments. They had money to really spend if they wanted to. They never thought of it that way though.

Shaw: No, and again, being so big, they had the arrogance of a large...any large company, which is to say, you know, that a competitor out there that has a minor market share right now is not going to grow their market share. This attitude, they're going to go away. It's incredible. So many businesses get...have blind spots around that and they, as you say, they don't have the right mental models. So innovation is at the heart of success today. If you don't continuously innovate, you eventually die or you go out and buy other companies that are innovating and bring them in, and P&G, you just described earlier, now bringing DTC capabilities into their organizations, seeing that as the future. So you're starting to see that change, but it's driven out of fear more than anything else. (22:28)

Bharwani: Now it is, because look at what P&G saw, the single biggest determinant that happened here in the last seven years, Gillette used to have 72% of the global men's shaving market. Today they're at 55%. That is a massive blow for these guys because all of those DTC guys have absolutely been nibbling away at their market share. They have to be …

Shaw: And it's happening in other categories.

Bharwani: Absolutely. Completely. Yes, yes. It's happening in hair care, it's happening in, you know, beauty and all of it essentially in the way it is happening. But literally in this particular case, when it absolutely comes after your market share in such a big way, you have to wake up and realize, "Oh my God, life has changed."

Shaw: And I think the other, of course, a big change is the fact that marketers have spent the last 60 years pushing messages out and now starting to realize that it's not really the way to go anymore. And let's stick with P&G because we certainly saw in 2017, you know, the biggest...was the biggest ad spender I think Samsung now exceeds them in ad spending, but P&G was the biggest ad spender saying that the digital media supply chain was murky and fraudulent, well, a lot of publicity around digital viewing time, less than two seconds, annoying ads, brand safety concerns, stalking of consumers with retargeting. It shook up the industry, his comments at the time. You know, you're in this business, were his criticism is valid and you'd certainly seen some response to them. If they were valid, what are the signs of redemption? Is the industry suddenly now realizing that it has some issues that it has to face and contend with in order to win back the confidence of companies that are big ad spenders like P&G?

Bharwani: So, yeah, I think, you know, we've watched them very closely because they've been our client for ages now. It's been a good 10 years now. And a lot of these issues are absolutely legitimate. And let me tell you, they fall in three major buckets, the way I see it right now, number one is consumer attention. So, if you look at the rate of growth of the actual brand produced content and creative, it's growing at the rate of roughly 20% to 25% a year. If you look at the rate of growth in contrast of the actual media consumption time, it ranges between 5% and 8%. Okay. So that gap keeps growing every single year. What's happening? Which means there's a massive competition for viewer attention at this point. So that's the one side of the storyline.

Shaw: A diminishing inventory of attention is what you are describing.

Bharwani: That's essentially what's happening. There's just not enough time for you to grab onto. So advertisers are going to have to try harder. Now, look at the other side of it, publishers. Publishers are saying, "Look, consumers don't have attention span and therefore you as advertisers should begin to shrink your content so that we can jam it into small pockets." So reduce it from, you know, 30-second ads and 45 seconds and minute-long ads down to 10 seconds or 6 seconds or even 3 seconds. If you go to Facebook, it's like, "Okay, let's just do that." And that's essentially what irritated Marc Pritchard. It's like, you know, by the time you get down to three seconds, every study I've seen, including our own studies that we have done across hundreds of different campaigns, generally the brand equity is correlated to longer attention spans and longer ad formats.

Shaw: More exposures.

Bharwani: Absolutely. So... But the publishers have every motivation to want to keep making advertisers believe that shrinking is better. Why? Because what they want to do is they want to use that ad time that they have and jam in as many ads as they can. Up until a year ago, Stephen, this is how bad it is, up until a year ago, if you went to big publishers, I will not name names, you have a 15-minute or a 20-second piece of content that you came there to watch. You would usually have a pre-roll ad and a mid-roll ad, a couple ads. That was the ad load you had. You look at it just this year and this week frankly, take a 15 or a 20-minute segment that you watch, whether it's a news or a commentary or anything of that sort, there are 7 different parts in there as ad interruptions that will come in. Okay. I'm not saying publishers should not really make money. They have to make money, but this is absolutely going to hurt in terms of what advertisers can get out of this level of ad load that is in there, right? (27:52)

Shaw: It just increases the anxiety people have when using the internet to access information. There's a lot that gets in the way of what they want to do.

Bharwani: Constant interruption and you can see in comments people actually put in there, it's like, "Look, I finally got tired and abandoned it and moved on." And that's really what's actually going to happen there. So that's the other thing that's happening. The third thing is the intermediaries are coming in as a way to help the publishers, so to speak, by saying, "Let's put your inventory on programmatic. Let's do all of these things. We can really help you monetize and so forth." But in the process, there has been an effort of what is called daisy-chaining that happens in there. So you've got the SSPs, you've got the exchanges, you've got the networks, you've got the DSPs and many others …

Shaw: It’s an alphabet soup.

Bharwani: Absolutely.

Shaw: You know... I look at it and I got totally confused by it.

Bharwani: Each of those is actually taking some piece of the pie in there to the point that if an advertiser gave you 100 bucks, you're lucky if $30 actually went into actual exposure and advertising.

Shaw: And that was Pritchard's big complaint.

Bharwani: Absolutely. And that's legitimate actually. And I would say that that collectively all the things I talked about marginalizes and really creates so much waste in marketing. Now, the answers are many...plenty of developments have actually happened. Some of those that are very interesting from where we stand right now, we are essentially collapsing the entire chain of events, and the way we are doing that is essentially taking a marketer's message and delivering directly to the publishers. We do not want any intermediaries in the middle so that it eliminates and reduces all of that waste out of there. And in the process...

Shaw: I'm sorry to interrupt, but is that direct programmatic with publishers?

Bharwani: That is correct. Yes, exactly. Yes. And I think that has some serious advantages too. Also, there are standards emerging. The things like ad, it's .txt, which is a measure of exactly where the inventory literally came from. Because as you know, many times if you have a placement that ends up in some exchange and then ends up in some other SSP and so forth, you don't exactly know if that really came from that particular publisher or what...there was some sort of a publisher's extension that was going on someplace else and so forth, that .txt implies that this is legit inventory coming from Publisher X. And so those are all the things that we are making sure, if it collapses it, it reduces the incidence of all the intermediaries eating up into the chain and really making it harder for the advertisers.

Shaw: Well, diminishing the payback on that investment.

Bharwani: Absolutely.

Shaw: I want to come back to that subject a little later on. But, you know, just let's paint a picture a little bit of the digital advertising world today. And if I may, the industry is still pretty immature. I mean, it's the beneficiary now of a surge of money that is flowing in there because Marc and Ross spend money on advertising and they're looking at traditional broadcast as effectively a dead medium. So, now this newfound money's coming in and the industry's still pretty immature. It's still finding its way as you're actually describing it. And one of the other challenges is, of course, you've got to play by the rules of the two biggest tech giants out there that are consuming most of those ad dollars, which is Google and Facebook. So they've got this stranglehold on the business and now comes on comes Amazon, the front end of the path to purchase in terms of product searches, and you're going to see this battle play over the next few years. How do you see this... Who do you see as the winners eventually emerging out of these behemoths fighting each other and what impact is that going to have on the entire industry?

Bharwani: So, this one is a very interesting development, in terms of what Amazon is doing. And I think Amazon is definitely going to get its fair share of the media money. That is no question in my mind.

Shaw: You wonder why they've been so slow to come to the table around this too.

Bharwani: Well, I think it may have something to do with, you know, I don't know the internals of how Bezos actually went about and how he ultimately landed here, where he's going, but I will say though, I think for him, building the best customer experience was the most critical, which is what he focused on and that's what Amazon is known for, which is nice. If you then begin to overlay the ways in which you can discover product, so there's product searches are one, and other ways to really that other partners can participate who really want to sell more products and so forth, well, that just adds more validity to the way you are trying to help the consumer. So, I think he doesn't want to really marginalize the experience part of it. And ultimately the limitation on how far Amazon can go in terms of overlaying media on their commerce platform is essentially going to be dictated by consumer experience. And I hope they are sensitive to that issue and continue to remain that way. But I will say that Amazon will definitely get its fair share and I think for one very important reason is the consumer mindset. The consumer who ends up at Amazon is essentially there because they are interested in sooner or later buying something. And that leads to the 35 or 40 years of research. I don't know if you've heard of Erwin Ephron who is actually the essentially the father of recency advertising or recency media, which is the belief that, as an example, if you've run out of cereal this morning, when you are in your kitchen, if I can present to you a Kellogg's ad at that moment, there's a very high likelihood that you're going to end up buying Kellogg's cereal. That's recency. If search was the beginning of that, which is establishing intent of something that is top of mind for you and therefore you present something to the consumer, then what Amazon is offering you is the absolute best recency that you can ever find. And that's precisely the reason why they are going to absolutely claim the share that...I'm a firm believer they will do extremely well in that area. (34.27)

Shaw: So, is that money bleeding away from Google and Facebook or is that enlarging the advertising dollars?

Bharwani: Well, that actually boils down to a whole new way of thinking, which is not new in the thinking of the way branding and performance dollars are actually spent. But if you look at traditionally how brands have understood, how much do you need to build...spend on building brand equity versus how much you should be converting that into actual performance and results, I would say that where the money's being spent for the most part on the Googles of the world and to some extent on Facebook is really much more on building the equity and the brand, especially video side of it. It's the performance dollars that are actually going to Amazon, so I'm not really sure that it's going to eat into those platforms, it's going to come from the performance side of it, which is fine. It's a good balance and that's what it needs to be. But there's definitely going to be some share shift

Shaw: That's interesting. And just out of curiosity, you say that you don't think the brand equity dollars will flow to Amazon, is that because it's more of a transactional interaction?

Bharwani: That is how I see it. You know, that's like saying, you know, you should be running a lot of brand advertising as a retailer around Christmas. The Christmas time and the holiday period is when people actually buy stuff, and so you don't worry about doing branding at that time. At the time you want to give them every reason to want to buy. And so, that's sort of how I would think about it. I think in terms of consumer windows or what I call apertures, and the window is a person is in a mindset throughout the day, throughout the week, throughout the year, seasonality and so forth in terms of what is it that they usually do around X time. And I would say that contextually speaking, the mindset around Amazon is very different than the mindset when you go to YouTube, you're not there to buy something.

Shaw: It's more of a distraction, if they're on Google versus Amazon, whether they're there, as you say, to buy something or to do some product discovery.

Bharwani: Exactly. If Lexus really wants to talk about something on Amazon, many of the car brands are actually going into Amazon, they're better off really driving tier two and tier three advertising over there than worrying about branding Lexus over there or what have you. You know, I'd much rather …

Shaw: And tier two creating more promotional...

Bharwani: Much more promotional...

Shaw: Advertising

Bharwani: ...taking them directly to the dealer, that kind of stuff. Exactly.

Shaw: Employee pricing. So Amazon has this one other big advantage right now and that's Echo and Alexa. The penetration of households is amazing with those, that combination. And we're moving rapidly into an age of voice interface ruling, you know, AI-powered of course. So, a couple of questions here. Will that idea of the voice interface now soon become the way we actually interact with the internet and with brands specifically? And if that's the case, if Echo-Alexa continues to maintain this dominion over the household, that gives them a rather phenomenal advantage, doesn't it?

Bharwani: So, you know, you have literally asked two questions in that one question. One is about whether the consumers will find this appealing and will actually use it broadly, and the second is would brands want to interact through that same interface. Okay. So let me address that as a separate sort of implications here. One is, there's only one very important reason why the voice interface will be extremely compelling and will continue to be good for the consumers and the way they see it. We as consumers are very lazy and we want to see convenience in every form and every way we can find.

Shaw: You made that point at the beginning of this conversation.

Bharwani: Exactly right. And so in this particular case, it's so much easier to just tell Alexa, it's like, "Just ran out of X. Just ran out of AAA batteries or something. And get it for me." And Alexa would be more than happy to give you the Amazon-branded AAA store label batteries. Okay. Excellent. Now, for product categories where everything is well understood and established and people know what it is you get from that product, it works extremely well, but if you need the visual feedback or you need other sensory support to make a decision then voice isn't going to necessarily go there right away. And so that's the reason why I feel that the voice interface would be useful for a variety of different household activities and actions that it could drive and so forth, there will be other forms of interface that will have just as many roles to get it, right?

Shaw: Well, and I'll go back to I think a general concern too, that now people are inundated by advertising today. They're fed up with it frankly in many cases, they're employing ad blockers to, you know, sort through the clutter, the barrage of ads that they are being faced with and I don't...I rather expect they don't expect their household device to be, you know, showing commercials the way their radio does. So, let's talk about the elephant in the room here, is ad avoidance or its rising, the ascendancy of ad avoidance going to bring down the free and now internet that we've known it for 25 years? (40:24)

Bharwani: So, that's a different trend that we see now. Okay, fine. So, 800 million people are blocking ads today. What does that mean? It means we can conclude that maybe they just want to subscribe to content and not have any ads, to your point. But here's the thing, I don't see a time when we or an average household will subscribe to dozens of different subscription services, that isn't happening. By the time you subscribe to your third video streaming service, you are essentially spending anywhere between $45 and $50 a month. That means that if you have a broader choice of watching content elsewhere and so forth, you're still going to do that and that all will still have to come through ad-supported media. And so, there is definitely life for that kind of capability to exist and I think consumers will want to consume it that way anyway.

Shaw: Well, and it's an interesting question, isn't it, is, you know, all of the more marginal publishers may slip away, slide under the waterline, if you will. It suggests too that we now almost see the return of big publishers that used to exist producing magazines and books and started to obviously suffer as the free and now internet emerged and the idea of free content. So it'll be interesting just to see how...what kind of shakeout actually occurs there. And then what's the play of the big tech giants and Google and Facebook and so on, in terms of displacing some of that media publisher inventory. And then the other trend which is kind of interesting is other retailers recognizing that there's value in creating an audience and creating platforms and creating gateways directly to customers. So, it's almost impossible to imagine now how these competing or conflicting trends will actually play out over the next number of years. It's like the wild west, really.

Bharwani: Yeah. Well, there are several things. So first of all, to continue where we left on the conversation of there will still be room for ad-supported media.

Shaw: Of course.

Bharwani: Lots of it. The way publishers can solve that problem is to make the consumer experience with ads superlative, way better than what it is today. And I'm really encouraged by the way Pandora and Spotify are beginning to look at what that experience might be like. There are some early indicators there which are very encouraging, which is...

Shaw: What were those?

Bharwani: I will give you some examples. The Pandora...I had the Pandora people on my panel at Ad Week last year and one of the examples I saw was they will actually...they will give users the choice that if you watched this ad or these two ads right at the beginning of a scheduled programming or a playlist of 10 songs or whatever it is, you can experience the playlist without any interim ad interruptions at all. So essentially almost like the advertisers are sponsoring the playlist. That I can see how it would work, right? Because I know if I can just see that and I'm focused on it and I'm not being interrupted by five other or seven other ads in the middle of it, the advertiser actually gains more value from that, and so does the consumer because there are fewer interruptions. And I would think that there are other ways to think about experiences that don't like get in the way and still allow us the ad supportive programming. That's important. Now, the separate question you asked regarding publishers or aggregators who have huge consumer bases and they could create, well, here's the thing, here's the rule of thumb that I used to have when I was working with clients at Digitas, which was if anybody, any brand or any publisher that had over 20 million consumers in their franchise, could actually have an argument to create a media business because there's enough consumers there, enough viewers there. The bigger question there is, does the brand or the retailer or whoever has that kind of an aggregated audience have a legitimate reason to actually want to create a media business? That is a bigger question. So, for example, Whole Foods has a reason it can drive a healthy organic lifestyle and have many things to say that will guide my life because I tend to be in that audience. I want to know more. What are the right things to eat, you know, what kinds of things are naturally homegrown or whatever it is, or coming from the farms, this, that, and the other. Whole Foods has the authority, they go out there and search for that kind of stuff. I want to hear about it. You can absolutely create a legitimate business, not only in terms of guiding people to what to buy but also in terms of bringing partners who can contribute to that whole... (45.44)

Shaw: So let's talk about that. What you're referring to is the rise of lifestyle brands, which make a ton of sense, but more than that, ecosystems, platform ecosystems that interconnect different suppliers that are serving the same audience, that gets interesting.

Bharwani: That is very legitimate in my opinion. You know, like for example, look at Red Bull and the Red Bull Media and the creation of Red Bull Media. Oh my God. I mean, that's a lifestyle. And they are bringing a variety of partners.

Shaw: Content-driven.

Bharwani: Completely content-driven. Absolutely. So that is absolutely possible, and I think it's the brands or the retailers or whoever the big aggregators are, they should be thinking those thoughts because that's truly bringing service.

Shaw: Well, it's the integration of products and services being really.

Bharwani: Absolutely. Without a doubt, totally, totally.

Shaw: And creating direct relationships with audiences by serving them not only the content that they're looking for but extended services that make their lives better and more convenient. But it does require fundamental shifts. You used the term mental model and how you look at the market and how you decide to serve the market and then the whole concept of value proposition development, value creation comes into play here, which is back to why businesses are struggling is because they don't have the business models to support that kind of thing.

Bharwani: Completely, that is right.

Shaw: They don't even have the people internally who are thinking at the level of that.

Bharwani: That's an evolution, isn't it?

Shaw: That's right. It's a total evolution, but it's coming faster and sooner than we might think. I want to explore a few different areas. We don't have a ton of time remaining here. I do have to talk about GDPR, the whole concept of privacy. You know, I heard the term consensual marketing probably the first time, maybe 20 years ago and I think it's going to have its day because we are rapidly entering a time where people will be insistent on having a consensual agreement with people in...or brands, I should say, who want to participate in their lives. I've heard this other phrase, it's kind of interesting, a concept of share a life, the very thing you were just describing, that the brand brings so much value that they are invited into the inner circle of that person's life, therefore you have a share of life. But it does demand trust and the trust is dependent on what are you going to do with the data that I'm going to be willing to supply you, which ties right back to my Tim Berners-Lee's question about portable data pods that ensure that that happens. But let's go back to the source of the issue here. GDPR is forcing companies to think differently about this. What does that portend for the future of digital advertising, which in part demands or is largely dependent on the ability of some knowledge of who's browsing at a specific point in time, what does that do to the equation?

Bharwani: So, the concern for consumer privacy is clearly legitimate. We all know that. And when data breaches happen, it reminds us over and over again.

Shaw: Which seems to happen every other day now.

Bharwani: Exactly now. So it's so much more common these days. And so, the legislation is coming, we know that, and GDPR was just the beginning of it. I'm glad that the Europeans really provided leadership on that front and now frankly, North America and the others will actually follow suit. There is no question in my mind there. So the way it works as we all have understood it to be is like you need to have consumer consent to the use of the data and what are you going to do with that data. Now, the other issue with that is most of the people even who otherwise are concerned about the privacy aren't necessarily that diligent in protecting their own data. The first time somebody says, you know, when you go to a publisher site and it says we are tracking cookies, whatever it is, I'm in the middle of an article, I'm not going to read the 10 paragraphs on the terms of agreement.

Shaw: Terms of agreement, and it is 10 paragraphs.

Bharwani: I'm just going to say, "Okay," and I'll move on. And so, we tend to be pretty loose ourselves, because we want to get whatever we want to get. And so, given that I think this really goes to be something even more fundamental, just because you have consent isn't really enough in this particular world. And what is really necessary and which I don't think that the advertisers have shown much discipline up until now, I'm just worried about it, is like even when they have the consent, they have my data, they just don't stop. They just don't know. They think that what's worth doing is worth doing 10 times more, and therefore they just end up abusing it because they have the data. And so they keep using it. And I think when the legislation comes down and the clampdowns will happen, I personally believe that a much better way to deal with all of this thing eventually is going to be through computing and computing intelligence, to establish the context in which people exist. I personally believe that we will have many different ways of knowing, depending on where the person is, what they are reading, what they are watching, whatever they are consuming. Those things will be far more observable as opposed to necessarily explicitly asking people for all of that information.

Shaw: But doesn't that come back to the very issue of privacy though? If your location is being observed and you've inadvertently or not allowed your device to communicate that information to somebody down the value chain here, isn't that at the heart of the issue is that, that people don't know that, that data is being transferred and that hence the need to have a privacy wall put around the consumer household to prevent that sort of thing from happening?

Bharwani: Well, you can, but then you don't get any services either. So, for example, how in the world can you use Uber without location data?

Shaw: Of course. No.

Bharwani: So, my point being that brands have to become so utility-driven, that the service they're providing is integral and warrants that it is what I am doing for you as a quid pro quo, that knowing what I know about you is important to me as a brand so I can do more things for you. So this goes way beyond just messaging and interruption. It is more completely converting the brand to a more servicing concept, and the more we get into learning about that as a behavior... Just the way we were talking about. Remember the BASF discussion that we were having, it's the same idea. You're not going after farmers to go pitch them something. You're essentially telling them what's the right way for you to manage your farm and the things that you do. Look at the whole John Deere affinity that they've created with the farmers. What is it? It's like a lifestyle. Again, it goes back to that. It's like I want to be a party to that because it helps me live a better life or practice a better thing or makes me professionally more, you know...

Shaw: Well, there's a trust factor they've built up. That's the brand equity that you were referring to earlier, isn't it?

Bharwani: Exactly, right.

Shaw: You know, there's the value of that content. Let's push this out. You have a background in AI. Where do you see AI playing now in this, and you referenced it, this idea of contextual delivery and utility in understanding what somebody...the intent of somebody at a moment in time by observing multiple data points. Where do you see this going? Like where do you see... Does advertising take on a whole different form as a result of some of these technology advancements that we're starting to see? So what's the future of advertising?

Bharwani: I think the role of advertising is an important conversation to be had. And we have some early examples of some of the brands who are practicing some of that. And I would say that the role of advertising will not change significantly beyond what we have known so far at this very fundamental, elemental level, which is you're either informing people or inspiring them. And I think nobody needs to know today how the dishwasher works, but they do need to know more about what they can do with the things that the brand has to offer. So I'll give you two examples of the brands that we've worked with over the last year, Excedrin. Excedrin's primary category in which it operates is it's a pain relief medicine, just like Tylenol is, like Aleve is, like Motrin is, like Bayer Aspirin is, it operates and participates in that category. Excedrin was the number five player in that category for years. It simply could not rise above that. They decided that they needed to be specialized in something, and they said, "You know, we're going to be the best in addressing migraine, the most severe form of headache that people get, very debilitating." So they could have come to market and said, "You know what? We're the masters of migraine. You pop a few pills and, boom, it disappears." That's it. That's all they needed to say. We're number one in migraine. But that's not what they did though. What they did was they took a very holistic approach of as opposed to just doing hard-hitting advertising, they identified migraine sufferers out there and found out what are all the things they're doing to manage their lifestyle to reduce the incidence of migraine, and they brought those people to the surface and showed what could you do to manage yourself? How can you reduce stress? Could you do certain things like yoga and whatever that allows your body to calm down a little bit? All of those things that they brought to surface, now that brings amazing levels of broader utility and information that I want to know if I'm a migraine sufferer, what else I could do besides just popping pills. So that's one great example of that. (56.55)

Shaw: So did they create a content hub as a result of that?

Bharwani: They created videos of people whose storylines showed what they do in an average day to manage their life around it. They have hectic jobs, but they found ways to calm themselves down so that they can reduce the incidence or once they start seeing that something is happening. They created empathy for the people they work with so that they would recognize that somebody is feeling that.

Shaw: And so it's the brand as trusted advisor here, in this case, a health advisor.

Bharwani: Absolutely. Absolutely. Okay, so now let's go to Lysol.

Shaw: Okay. That's quite a switch.

Bharwani: Yeah. Thirty-five years of advertising which said germs before, germs after, buy Lysol. You could deliver that commercial in five seconds. And that's how they delivered it. But there are now 15 other brands and products that can actually kill germs. So that's not new. That's not very different. So they wanted to elevate their message, and the way the elevated it is they created a message which said, "Lysol protects your children like you protect your children as a parent." And the message...

Shaw: An emotional message.

Bharwani: A completely emotional message in the way the protection element of there is no parent I know of on this planet who couldn't relate with that message. It's very inspiring, very touching. And you see the images in the video and so forth, completely take you in a different way. This is what I mean by inspiring and connecting in a very different way. And I think that's the way the brands are going to have to think about how to connect with their audiences. Remember the one thing that we did not complete, which was when you brought up the topic of Alexa. It's very easy for Alexa to give you a recommendation based on what's the cheapest, what's the this, what's the that, on just measurable benefits, unless you as a consumer were to ask, "I want Lysol, I want Duracell, I want Excedrin." Unless you ask Alexa for that, you have completely destroyed the brand value of everything you may have done for decades before that.

Shaw: Right. And that is a real risk today. Two brands can unravel the brand equity they built up very, very quickly. And that's the power of social media, which has changed the game entirely. Well, 25 years ago you started down this path and you probably couldn't have imagine 25 years later where we are, 25 years later from now, imagine what the world's going to be like, maybe 10 years from now.

Bharwani: I mean, you know, it is very hard to imagine even three years from now.

Shaw: I know. Isn't it?

Bharwani: Things are actually happening so, so fast. And frankly, I will say that as messed up as it appears digital advertising has been, I see enough evidence that the entire supply chain is being cleaned up sufficiently, new sources of data being introduced and the technology and the computer vision and other elements that are coming into the picture are truly quite exciting. If I was in the brand marketing space today, I would really be looking at this whole thing as a candy shop.

Shaw: Well, and that's what Pritchard said. He said himself that these are exciting times to be a marketer and that brands have to reinvent the way they do business. The mental model that you referred to earlier has to be adapted. But it does make for interesting times and interesting conversations, which is exactly what this has been.

Bharwani: And the last thing he said, which is so important, he says, "Brands need to take control," as opposed to expect that other people will really do it for you. Well, I think that's a very interesting trend that we see as well in the market.

Shaw: Well, it's interesting because AG Lafley who headed up P&G years ago, made a famous comment about brands had to give up control to consumers, relinquish the steering wheel. They are in control now, and that's exactly what the internet's allowed people to do. So it'll be interesting to see how this plays out.

Bharwani: Exactly.

Shaw: Thank you very much. This has been a fascinating conversation. It really has.

That concludes our interview with Seraj Bharwani. As you’ve heard, there is no doubt that the web is at an inflection point, its current business model viewed by most experts as unsustainable, notwithstanding the massive infusion of ad dollars, which will only further alienate the online population. The trust of people is at stake, and the industry would be well served by rethinking the role of advertising in their lives. What that future business model looks like is up for debate. But one thing is for sure: between stricter privacy regulation, pushback from advertisers and growing ad resistance, the digital ad industry will need to reform past practices.