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# The death of third-party cookies

A look at the future of online advertising and how to prepare for it

**FIPP**
Connecting
Global Media

# Contents

# The cookie crumbles - but media brands stay strong

Having materialised in the mid-1990s, cookies have been around for so long now that they seem baked into the infrastructure of the internet. But why, and how, did they become so important? And where does their impending disappearance leave those who rely on them?

This report takes these questions seriously, looking at the full picture: where cookies came from, what problems they solved, and how they became indispensable for many publishers' monetisation models as they made the shift to digital-first. Importantly, we also look at what comes next, and how publishers and related businesses can respond to this challenge.

**A necessary weaning?**
No doubt, the loss of cookies is a huge blow for many in our industry. We know it can feel like the goalposts are always moving, leaving little margin for error and pushing media brands to refine their business models again and again, in response to the whims of big tech and rapid changes in society at large.

But in a way, hasn't that always been the case? Our industry, perhaps more than most, has weathered seismic

# INTRODUCTION

shifts in the past two decades or more, subsequently coming out the other side and thriving. The cookie itself emerged from a period of digital disruption two decades ago - and it's disrupting again now, with its demise. Other things will move in to take its place, and publishers will adapt and thrive in the new environment.

As this report explores, this could be the start of a transition to an even healthier and more robust media landscape. Concerns about data privacy have been growing for years, and against this backdrop, advertisers and publishers can strengthen their

alliances with one another to create better experiences for their audiences. There are so many ways that media brands can turn this challenge to their advantage - and many already are.

As we hope you will see when reading this report, then, what emerges most clearly is the opportunity for innovation and positive change that this could bring. The ongoing diversification of revenue streams and focus on D2C (direct-to-consumer) are two long-term trends that speak to publishers' commitment to becoming more self-sustaining, with or without the cookie.

In any case, with Google having pushed back its own deadline for retiring the third-party cookie from Chrome to late 2023, this may turn out to be more of an evolution than the revolution many feared. With two years to go, now is the time to prepare. Fundamental change is coming, but we have no doubt we will embrace it for the better and emerge stronger for it. ●

# From ecommerce tool to internet essential

When Netscape's Lou Montulli developed the cookie in the mid 90s, he could never have envisioned the profound impact his innovation would have on the development of the web . . .

WHAT was initially conceived as a way of making it simpler for users to make ecommerce purchases has become the key component of advertising and marketing and played a massive role in the evolution of the internet.

For publishers, cookies have become something of a mixed blessing. On the one hand they helped to ignite a boom in online advertising as online media companies discovered various ways to monetise their web-based content.

Yet as the years have rolled by, the way that cookies have helped to fuel programmatic advertising has eroded publishers' initial enthusiasm. CPMs have fallen, revenues dropped and in many ways the cookie has created a wall between the publishers and their audiences. For some, their ad inventory has become just a cheaply acquired afterthought for brands looking to cement their relationship with consumers across numerous sites and platforms.

Cookies have also helped to create the hugely powerful social media platforms that have sucked up

large amounts of money from brands – often at the expense of traditional publishers.

Now it appears those same tech organisations, whose initial enthusiasm was the catalyst that sparked the adtech industry, have finally called time on third-party cookies. Google will follow the lead of Apple and Mozilla and remove third-party cookies compatibility from its Chrome web browser in 2023. The original deadline was 2022, but Google says it wants to give the industry more time to assess the alternatives.

The move has been called by some publishers the most transformative event in the history of online advertising. Yet, with the clock ticking, the media industry finds itself in a position of being broadly in agreement with the move, but genuinely not sure of what is the best way to proceed.

Google has shared its proposals, but it will need the support of publishers, the ad industry and media regulators to deliver its alternatives. Currently, that backing is far from assured.

Publishers, in particular, will need to pay close attention to what follows the third-party cookie. Fortunately, many have been pivoting their monetisation strategies for a number of years. Some have started to prioritise initiatives - like emails, newsletters, contextual and native advertising - that they had originally mothballed decades ago.

Others are working out how to harness the first-party data they collect to develop new revenue opportunities. Some have business models still deeply rooted in strategies that are heavily dependent on third-party cookies. They may face an uncertain future.

2022 and 2023 will be watershed years for publishers' monetisation strategies. In this report we have sought the views of authorities from across the media spectrum who share their views on why third-party cookies were so successful and what has brought about their demise.

Most importantly it looks to the future and examines some of the solutions that have been proposed by tech companies, publishers and brands.

Might it be that the death of the third-party cookie is the game-changer that publishers have been waiting for?

# The rise and fall of cookies

N THE MID 90s, the pioneers of the internet faced a serious challenge. Entrepreneurs had already recognised the potential of the new medium for ecommerce, but the industry's key players were not keen on having to store information relating to each user.

The solution was created by Lou Montulli, a 23-year-old engineer working for Netscape, which at the time was the most advanced and popular web browser.

Montulli came up with the concept of the cookie – a small amount of data that could be stored on an individual's computer to archive information such as login details and passwords. It also kept a roll call of the pages the person had visited.



A hostage to fortune

Within a few years, advertising companies saw the potential of cookies as a way of tracking users' journeys across the web, enabling them to develop profiles of the users and ultimately target them better.

Among the first companies to achieve this was Doubleclick, which was subsequently bought by Google in 2008. The latter then expanded its advertising business from search pages to programmatic ads on websites.

It was an innovation that was noted by the executives at the emerging social media platforms who saw cookie-based advertising as a key way of monetising their content. ➔
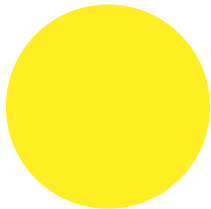
## FIRST- AND THIRD-PARTY COOKIES

TWO MAIN TYPES of cookies emerged: first-party cookies, which are largely true to the vision of its original creators; and third-party cookies, which took the concept in a slightly different direction.

First-party cookies come directly from a website a user chooses to visit. For example, if a user goes to a website and types in their post/zip code to get more personalised information, the site might save a

cookie on their device. It is a way of remembering a user's location and offering the right content quickly and seamlessly on the next visit.

Third-party cookies, however, are stored under a different domain to the one that the user is visiting. They are mostly used to track users between websites and thereby display more relevant ads between websites. The cookies enable adtech companies to build profile information of a user, which can mean that they are targeted by advertisers.

P Schopflin

Third-party cookies solved two of the advertising industry's key problems. First, they offered scale and efficiency. No longer would advertisers have to cut what they would consider to be time-consuming deals with individual publishers, the cookie-powered ad technology meant that they could find, in theory, a receptive audience for their ads across the web.

Matt Naeger, who heads US strategy for the performance marketing agency Merkle, admits that for many marketers third-party cookie-driven advertising quickly became addictive. "We became a little bit dependent on third-party cookies because it was easier, faster, and required less planning and integration [than traditional marketing]."

The second problem cookies promised to address was around measurement. Agencies and brands could easily analyse cookie data to see how their campaigns were doing. It was a world away from the magazine print days when publishers and marketers struggled to agree true performance data.

The initial enthusiasm for third-party cookies revolutionised the process of online ad buying. It helped to create programmatic advertising, which has become central to the way that ads are placed on websites. And even though there has been a shift away from programmatic in recent years it still accounts for a large portion of digital ad spending – 85% in the US in 2020.

As Brittany Wickerson, Global Head of Media at agency We Are Social explains, cookies were pivotal to how the online advertising developed, but they might have ultimately made things too simple for agencies.

"Third-party cookies were one of the mechanisms that enabled media teams to demonstrate the importance of digital advertising in driving business results. They allowed us not only to deliver higher reach, but also facilitated measurement of performance, attribution across channels, and better storytelling and customization.

"The generosity of third-party cookies in giving access to aggregated audiences and credit to advertising teams has also made it possible to defend larger media budgets, though often at the expense of an investment in value-added, entertaining creative, focusing instead on more direct response content."

For publishers though, while reaping the rewards of a dynamic advertising industry that created new opportunities for brands, they have gradually seen their role in the ad process eroded. For many publishers it has meant that there is limited or even no direct relationship between the brand and the publisher.

In some instances third-party adtech companies have been able to amass huge amounts of data about consumers while the publishers on whose pages the ads appear, have no access to that information, yet are seemingly powerless to change the process.

The use of third-party cookies in the advertising process has always been controversial. Not least because in reality cookies were not really created with the purpose that they have become most associated with in mind. They were created in a different era and for a different purpose. It would have been hard for their developers to envision the way that digital marketers would eventually use them.

Firstly, for a number of reasons, they don't really deliver a complete picture of the customer journey. The biggest issue is that third-party cookies are device-specific, most internet users are flitting between desktop, mobile and other devices.

They especially don't work well in apps. According to Statista in the first quarter of 2021, mobile devices (excluding tablets) generated 54.8% of global website traffic, and that figure has been consistently around the 50% mark since the beginning of 2017. Given that much of that traffic is driven via apps this presents brands and agencies with a serious problem.

Secondly, third-party cookies are unreliable and can disappear quickly. They can expire or are deleted by the users - there are no guarantees that they will go on working.

In fact studies have queried their accuracy too. One report compared cookie data it had on a given audience with another vendor's cookie data on the same group, The accuracy hovered between 40% and 60%. This could mean that more than half of the data accrued by third-party cookies is wasteful, inaccurate and ultimately misleading.

## CONSUMER ATTITUDES TO COOKIES

CONSUMERS have become much more aware of how their data is being harvested and used online, not just by the adtech industry but by tech giants on social media platforms.

For consumers the most high-profile response has been the rise of the ad blocker. The concept originated in Germany, a country with a high regard for privacy, perhaps with good reason. The leading ad blockers AdBlock Plus began to offer consumers the opportunity to strike out ads from pages as early as 2004. Although arguably its pivotal moment was in 2010 when a blocker extension was created for the Google-owned Chrome browser.

AdBlock Plus claims its software has been downloaded over a billion times now and is operational across the globe.

The growth in use of blocking presented a not insignificant issue for publishers. Many solutions were developed and ultimately shelved
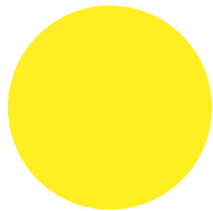


"Consumers have long thought that tracking was creepy, but with endless data breaches in the news, the Facebook Cambridge Analytica scandal, and 2016 US presidential election, consumers absolutely do not trust digital media giants now. It went from creepy to dangerous."

ANNMARIE WILLS,
LEVERAGE LABS

in a bid to outwit the ad blocking companies. At the same time some companies in the advertising industry chose to work with them with AdBlock Plus creating a white list of brands whose ads could be seen across their network.

AnneMarie Wills, CEO of Customer Data Platform experts Leverage Lab, was surprised that more consumers didn't employ ad blocking systems.

"It's no different than placing your phone number on a do-not-call list. Research consistently shows that consumers find value in advertising messaging, but the misuse of third-party data is so prevalent and intrusive it became necessary for consumers to apply a blunt object."

Wills concludes: "The only appropriate way to address ad blocking is to find ways to earn an addressable relationship with audiences. Bring value, establish trust, ask for consent."

Perhaps the ad-blocking movement's key significance was not necessarily in the financial damage they caused for publishers. Rather their existence brought the whole relationship between the consumer, the adtech industry and the brands under the spotlight.

Survey after survey showed that consumers were becoming ever more uneasy about the amount of data that was being collected about them. And the use of third-party cookies that underpinned much of this data came increasingly under fire from inside and outside the industry.

For some consumers the way that ads seemed to follow them around the web was getting weird and intrusive. What was being billed as a golden bullet for brands - to consistently place ads the user has already shown an interest in no matter what the context - had become toxic for a lot of web users.

"The constant re-targeting as I travel around sites, the often creepy way ads are targeted after searches, purchases, email and social media mentions. These give the sense that one's privacy is being abused by adtech," argues Dominic Young, CEO of Axate, a UK-based start-up that offers publishers payment per article.

One of the catalysts that exposes the break in trust between consumers, tech giants and the ad industry was the Cambridge Analytica scandal of 2016. Public opposition to tracking escalated after news broke that

a third-party analytics company had harnessed Facebook users' data in a bid to influence a series of elections across the globe.

The constant drumbeat of headlines from media companies whose relationships with social platforms was sometimes rather fractious, continued to undermine confidence and lead to ever louder calls for control of media and technology companies.

There have also been a number of concerns with the way the system operates and the voices that have been critical have grown louder and more powerful over the years.

Consumers were asking who had owned all that data and how was it being used? Did they not have any rights over who could access it?

Ironically the Cambridge Analytica scandal had little to do with third-party cookies in advertising. Yet it pushed the use of data and how it is being collected to the top of the news agenda.

AnneMarie Wills also believes that this has significantly impacted on how consumers see advertising.

"Consumers have become savvier about how digital advertising works and see data collected without consent as an invasion of their privacy. This is made worse when that data is responsible for a bad user experience because of poor segmentation and personalisation. It's impossible for consumers to see value in data collection when many of their experiences are poor or irrelevant."
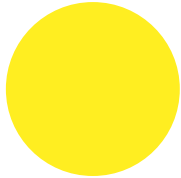
> "The way in which GDPR compliance has been implemented, with pop-ups and multiple steps needed to opt out, has not improved user experience or understanding and often feels like a trick."

DOMINIC YOUNG, AXATE

## LEGISLATION GOVERNING COOKIE USE

IT BECAME a matter of who would move first – the companies that operated the browsers or the governments under which advertisers operated.

In 2016 the EU unveiled the GDPR (General Data Protection Regulation). Its primary aim is to give individuals control over their personal data and to simplify the regulatory environment for international business. Crucially, GDPR applies to any enterprise regardless of its location and the data subjects' citizenship or residence processing the personal information. So even though it is focused on Europe it has in many ways become a globally adhered to set of standards.

Elsewhere, in 2018 California unveiled the California Consumer Privacy Act (CCPA), which addressed similar privacy concerns to GDPR.

It could be argued that the key change that GDPR and CCPA have brought about is to constantly present consumers with decisions about data. While only a tiny minority read the contract they are agreeing to when they tick the GDPR-based boxes, all users are repeatedly reminded of the nature of the exchange they are making when accessing free content.

Axate's Dominic Young worries that: "Poor implementation – repeated opt-ins, pop-ups etc – has likely reduced the public perception of value in this legislation. Most people aren't interested in the details. The way in which GDPR compliance has been implemented – with multiple steps needed to opt out – has not improved user experience or understanding, and often feels like a trick."

## THE DEATH OF THIRD-PARTY COOKIES

IN 2019, Firefox, which is owned by the Mozilla Corporation, became the first mainstream web browser to outlaw third-party cookies by default. It wasn't alone in this direction, for not long after in 2020 Apple announced a similar upgrade for its Safari web and mobile browsers.

The ball was then very much in Google's court. Its Chrome browser had become the world's most popular and in 2020 accounted for 64.8% of all internet traffic.
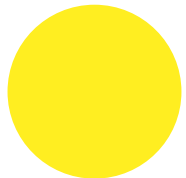


"Google's announcement that it will not only stop the use of third-party cookies but will also not be using alternative identifiers, stirred up much panic within the industry. But the real surprise is how much it has caught people by surprise."

JAMES SLEAFORD,
INCUBETA

The company responded in 2020 by announcing its intention to outlaw third-party cookies in Chrome within a period of two years (later amended to three). It confirmed there would be a transitional period in which it said it would work with the industry to develop a series of solutions to fill the void.

In a blog post the company said: "After initial dialogue with the web community, we are confident that with continued iteration and feedback, privacy-preserving and open-standard mechanisms like the Privacy Sandbox can sustain a healthy, ad-supported web in a way that will render third-party cookies obsolete.

"Once these approaches have addressed the needs of users, publishers, and advertisers, and we have developed the tools to mitigate workarounds, we plan to phase out support for third-party cookies in Chrome. Our intention is to do this within two years. But we cannot get there alone, and that's why we need the ecosystem to engage on these proposals. We plan to start the first origin trials by the end of this year, starting with conversion measurement and following with personalisation."

The publishing, advertising and media industries reacted swiftly to the news. James Sleaford, Managing Director of UK and IE of digital marketing agency Incubeta DQ&A, believes that the industry should have seen the move coming.

"Google's announcement that it will not only stop the use of third-party cookies but will also not be using alternative identifiers, stirred up much panic within the industry. But for me, the real surprise is how much it has caught people by surprise," he said.

"Google has slowly been communicating its shift towards a privacy-first framework by regularly referencing the importance of first-party data, along with the use of privacy safe tools like Ads Data Hub to plug data gaps."

Many in the advertising and adtech sectors saw the move as a disaster for the industry.

Groups like the American Association of Advertising Agencies stated that they were "disappointed that Google would unilaterally declare such a major change" and were concerned that the move would "threaten to substantially disrupt much of the infrastructure of today's Internet."

What has enraged some advertising groups is that the move, though presented as being borne of genuine concern over privacy issues, ultimately strengthens Google's position in the media landscape. Without third-party cookies advertisers really have little choice but to cooperate with Google and use its first-party data tools.

In fact, a recent client survey Blis conducted revealed that 78% of senior marketers are concerned or very concerned by the loss of cookies. These statistics evidence the worry around how brands will continue to effectively run a campaign in an identity-free world.

The problem for the industry is that while the third-party cookie-based system may have its flaws, so too do many of its alternatives. Cookies are so embedded in the ad tech system - acting as a key way that the companies exchange information with each other, from planning through to execution and measurement. Finding solutions that tick all those boxes is not going to be an easy task.

To help the industry come to terms with the move Google created the Privacy Sandbox, which is essentially a set of tools that let advertisers run targeted ads without having direct access to users' personal details.

The proposals the Sandbox features include ways to tackle spam, how to log into websites and options for a re-thinking of the online advertising industry. There are tools that look to measure how much people click on ads and then buy products and different ways to show people ads online. The big idea is a system called Federated

Learning of Cohorts (FLoC), which we will examine in more detail later.

From the moment the Sandbox was unveiled it was the subject of intense scrutiny and ultimately criticism.

"The real question is whether Google's actions will speak louder than its words, namely all good actors being given equal opportunity to leverage this tech similarly without undue advantage given to Google in the process," said Adam Solomon, Lotame's chief marketing officer.

Aaron McKee, Chief Technology Officer, Blis, which claims to be the leading privacy-first, location-powered programmatic advertising partner, is also very suspicious of the motives behind the creation of the Sandbox, and on the move against third-party cookies in general, while remaining optimistic that its initiatives might play out.

"While it's good to see Apple and Google taking a tough privacy stance, there are doubts over whether the pair will genuinely 'walk the walk' when it comes to privacy, as well as 'talk the talk'," he argues.

"What you can say about the changes is that, while they hurt everybody a little bit, they hurt everybody other than Apple and Google a lot more. As it stands, both of them are going to come out of this further ahead of the rest, so the industry is looking at the pair to hold themselves to the same standard that they're trying to hold everyone else to.

"That said, while some call these moves by Google and Apple anti-competitive, we remain pragmatic in our view of how this will play-out in the long term. There is still a long way to go, and Google must continue to support the journey by ensuring total transparency of its approach and resisting any unfair advantage its position could allow." ●

# The future for online advertising

The advertising landscape will look fundamentally different without third-party cookies. What comes next is less certain

Months on from Google's announcement, there are a series of proposals from various quarters as to how to re-shape online advertising.

They are:

→ Google's ideas based around a concept called Federated Learning of Cohorts (FLoC)

→ The publisher-first-party data play

→ The adtech industry's identity-based tracking solutions

Google's own ideas are based around browser-based tracking models. The company is positioning them as something of a compromise but they clearly have its best interests at heart.

Secondly, the publishers have their



Figuring out what works for each advertiser will be a big part of the strategy

own take, which is largely rooted in the creation of and monetisation of first-party data. In some ways it could be described as a return to traditional values in publishing.

Finally, the adtech industry has responded with a version of identity-based tracking, which some critics have described as a more acceptable version of third-party cookies.

It is highly likely that all three

responses will be adopted in some form and that parts of the industry will operate a mix and match approach. Companies will experiment and this might lead to the creation of hybrid models, partnerships and other innovations.

Karan Singh, Commercial Director, Global Accounts, for advertising platform Xandr, says: "The death of the third-party cookie will mean a lot more in terms of innovation, as adtech vendors test new strategies. It's important to respond to advertisers' and brands' needs for new solutions. Figuring out what works for each advertiser will be a big part of the strategy.

"It's really important for everyone in the digital advertising ecosystem to explore solutions that don't rely on third-party cookies."
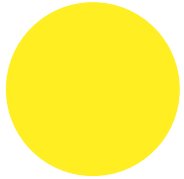
> "We do expect publishers that are subject to GDPR regulations may reject FLoC in its current state due to its lack of transparency and explicit and informed customer consent."

MARK ZOHAR,
VIAFOURA

## FLoC: GOOGLE'S RESPONSE

"WE DO EXPECT publishers that are subject to GDPR regulations may likely reject FLoC in its current state due to its lack of transparency and explicit and informed customer consent," says Mark Zohar, president and COO of Viafoura, which helps publishers create revenue from their digital audiences.

Google's big idea for the future of online advertising is a system called Federated Learning of Cohorts (FLoC). The company says that it has a lot of the benefits of third-party cookie-based systems, and is almost as accurate (Google claims it is 95% as effective), but it doesn't have the latter's privacy issues.

This is because the browser, in this instance Chrome, only collects and saves data about what a user does online locally on their device. It is not shared in any way with third parties.

The original idea was to use this intelligence to create a cohort of users with similar interests and browsing patterns. So, for example if you were passionate about vintage Italian bikes and regularly spent

money on component parts or retro jerseys you would be put in a cohort with others who shared your interests. Once created the cohorts would be updated on a weekly basis, so you might find yourself moving from one group to another.

Or as Google puts it in its blog post, "an adtech platform might learn from an online shoe store that browsers from cohorts 1101 and 1354 seem interested in the store's hiking gear. From other advertisers, the adtech platform learns about other interests of those cohorts."

Each time you visited a website then the browser would tell the site which cohort you currently belonged to and then would tailor the ads you see to the interest of people in that cohort.

Advertisers only see information about the cohort of users not the individuals, thereby neatly sidestepping any privacy concerns.

Google has been beta testing the concept across the globe for several months now, including in the US, Japan and Australia. Ironically the countries it has chosen to experiment in don't include any European ones as it is unsure whether the FLoC system is compatible with the continent's GDPR legislations.

Although some industry pundits have welcomed FLoC as an upgrade on third-party cookies there are still concerns about what its implementation might mean for brands, publishers and consumers.

One core element of FLoC is that it still generates and collates a lot of data. It knows what users are doing online and is able to both track and target them. It also delivers an efficient way of measuring the success of campaigns too.

The problem is that all that data is run through the browsers, which means that the browser owner - in this instance Google - has a monopoly on being able to access and use that data. It would significantly enhance its position in the advertising world by delivering a kind of walled garden in which it is the custodian of data. At the same time it can present itself as a champion of users' privacy as it no longer allows third parties to access that data.

It is a very neat trick, yet whether the company will be able to pull it off remains to be seen.

There are of course those who feel
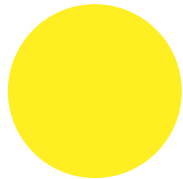
"We have a clear strategic direction and enough information to... ensure that we retain control of our most valuable asset — a first-party relationship with consumers."

DUNCAN TICKELL
IMMEDIATE MEDIA

Google would have been better off going back to the drawing board. "Instead of re-inventing the tracking wheel, we should imagine a better world without the myriad problems of targeted ads," argues Bennett Cyphers of civil liberties group the Electronic Frontier Foundation.

There are two other key challenges Google will have to overcome to enable FLoC to work effectively.

Firstly, the company needs industry buy-in and that might not be forthcoming. Several of Google's rivals, as well as many prominent websites, have said they won't take part in FLoC trials as they feel it gives too much power to Google.

Some media companies have been happy to participate in the FLoC trial like The New York Times. Others, like The Guardian, have opted out saying they remain agnostic about the commercial and privacy implications of the technology.

Currently, no other browsers apart from Google's Chrome have agreed to adopt FLoC, while third parties like Amazon and WordPress are blocking or planning to block it, due to privacy concerns and unwillingness to share data.

The second issue will be getting the regulators on board, and that might be very tricky. The European Commission is investigating whether getting rid of third-party cookies – and Google's FLoC plan – is anti-competitive, though it could be a while before it makes any kind of ruling. It also needs to make a call on whether FLoC remains within the spirit of its GDPR framework.

In tandem with the EU's move the UK's Competition and Markets

Authority (CMA) – which post-Brexit is no longer bound by EU policies – announced earlier this year it would conduct a review into Google's proposals. Indeed, Google has stressed that one of the reasons for the delays of FLoC was the ongoing discussions with the CMA.

Viafoura's Mark Zohar told Digiday: "We expect that publishers subject to GDPR regulations may reject FLoC in its current state due to its lack of transparency and explicit and informed customer consent."

Yet FLoC is unlikely to remain static as a concept. Google has traditionally run up new initiatives and then seen them pivot in slightly different directions. It is possible that there may be compromises to pacify regulators and ad industry bodies.

In late July Josh Karlin, a tech lead manager of Google's Privacy Sandbox team in its Chrome browser, gave an update that revealed that the original concept for FLoC was not yet set in stone. Karlin intimated the company was mulling over assigning topic categories to websites and people rather than giving them cohort IDs.

As Kate Kaye in Digiday noted "even if the company does not go forward with the approach, consideration of the change indicates a recognition inside Google that the original version of FLoC was not only opaque to the ad industry but also presented new privacy infringements for users".

Among the initiatives under consideration are the option of Google assigning a site topic based on a variety of interests reflected by the sites people visit

in a given week, and enabling people to opt themselves into or out of topics assigned to them.

This shift could help address privacy concerns and in particular counter the possibility that FLoC IDs could be used to enable fingerprinting techniques that piece together someone's identity.

Karlin said this approach would reduce the number of signals that might have been used to detect identity.

It may evolve from a technological perspective too. One key ingredient that could make FLoC extremely effective is artificial intelligence. If used efficiently AI could enable FLoC to become more accurate by learning from the signals it receives and making predictions.

As for consumers, there are still queries about whether it would totally eliminate privacy concerns. FLoC still means that Chrome users' every move online is being logged and tracked—it would just make it harder to tie that data back to an individual.

The jury is still out on FLoC and it could be years before publishers will be able to clearly see how it will operate – and whether it will work for them.

Writing to The Verge, Dieter Bohn summed up Google's dilemma. "Few will shed tears for Google, but it has found itself in a difficult place as the sole company that dominates multiple industries: search, ads, and browsers. The more Google cuts off third-party tracking, the more it harms other advertising companies and potentially increases its own dominance in the ad space. The less Google cuts off tracking, the more likely it is to come under fire for not protecting user privacy. And no matter what it does, it will come under heavy fire from regulators, privacy advocates, advertisers, publishers, and anybody else with any kind of stake in the web."

Whether opinions like this push the company back to the drawing board and mean the end of FLoC, or just further delays, remains to be seen.

## HOW PUBLISHERS COULD RESPOND: FIRST-PARTY DATA

PERHAPS the most important shift caused by the demise of third-party cookies will be the pre-eminence of first-party data.

Over the past half decade or so publishers have been on a journey to better understand their readers and this has meant collecting more data about them and working out ways in which they can monetise that data.

The demise of third-party cookies strengthens their hands and in theory presents all kinds of opportunities.

This shift fits in with the general narrative that underpinned many publishers' strategies in the last few years, namely the movement to find ways other than advertising to monetise their content.

The success of news companies like The Guardian and The New York Times in pioneering subscriptions and membership-based initiatives has now percolated down throughout the publishing chain. Even the smallest media start-ups now invariably factor in paying



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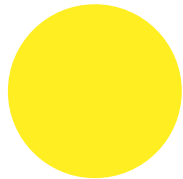
"It's time for advertisers to start building direct relationships with publishers and testing campaigns using audiences built from their first-party data. Advertisers that do so are seeing results."

JOE ROOT,
PERMUTIVE

for newsletters and tip schemes as ways of generating income.

For companies that have emerged from the print magazine industry it is a return to business models that they were originally rooted in - paid- for content supplemented by advertising, not the other way round.

Even companies that don't charge for their online content have recognised that collecting data about their readers is pivotal, whether that be informally collecting information from readers via first-party cookies or creating structured walls that require readers to log in.

Joe Root, CEO and co-founder at publisher data platform Permutive argues: "Publishers have been working on future-proofing their data strategy since Apple removed third-party cookies in Safari. It's now time for advertisers to start building direct relationships with publishers and testing campaigns using audiences built from their first-party data. Advertisers that do so are seeing results. The Guardian recently revealed that first-party data delivered 65% higher brand uplift, and the proportion of impact on preference and intent metrics was 39% higher when using first-party data.

"While this is positive news, there's still some way to go. A study we conducted with Forrester, surveying more than 100 advertisers in the UK and US, shows that 41% of advertisers still rely exclusively on third-party data for targeting and measurement. It's not too late for advertisers to shift from third-party to first-party data, but they need to start learning, investing and testing now."

From an advertising perspective first-party data could signal a return to contextual advertising where ads are placed next to relevant content. Publishers use data to divide their audience into segments, and sell ad space to advertisers who want to target those segments.

Duncan Tickell, Chief Revenue Officer Immediate Media, believes that "context is once again going to become vital". He argues: "Many commentators are predicting that the majority of transactions in digital will be in targeted or context by the end of this year, or when third-party cookies are no longer supported. And that being the case, we think that all publishers, and by publishers, I mean premium content creators,

have a real opportunity to once again offer advertisers trusted content in a relevant and premium environment."

All of the major players in the publishing industry are looking at how they can leverage first-party data in the post third-party cookie era. For the larger publishers they already have that data and will be in a strong position to sell those specs to brands.

Permutive's Joe Root believes that if the publishers are successful in creating first-party cookie-based advertising systems they might even render the requirement for FLoC redundant.

"As data owners, both advertisers and publishers have to stay in control of their data. Google's recent announcements send a signal that it's no longer safe to support

matching in the bidstream – the transactional data that supports demand and supply-side platforms – and this should instead happen inside the publisher's environment.

"Therefore, the data used to plan and buy media will shift to Publisher Cohorts; these are audiences built directly at the source, not

by third parties, using publishers' first-party data. This differs from Google's FLoC which replicates the cross-domain tracking that happens today and decouples publisher data from inventory.

"Publisher Cohorts ensure data and inventory are coupled, so data doesn't leak. The benefit for advertisers

is that Publisher Cohorts place users in more than one cohort, as publishers have a rich understanding of their audiences and can provide a more nuanced description of the user without identifying them."

Managing first-party data will however present more of a challenge to smaller and global publishers whose data may be limited either because of the size of their audience or their lack of resources delayed to collect it.

Dominic Young, CEO of Axate, believes that smaller publishers might have to look more broadly at theory monetisation strategies, and consider new options. "Smaller publishers without audiences at scale, with undiversified revenues are most at risk because they are still overly reliant on advertising, less able to command a premium for their audiences and

products. However, especially where they serve a niche and specialised audience, their opportunity to create new reader revenues using tools like Axate may actually be better than for larger, less targeted, titles."

In some ways a shift to first-party cookie-based systems will present brands with a scaling problem. They may once again have to strike deals with a number of publishers, rather than simply focus on relying on technology to connect their ads with an interested audience. Partnerships are second nature to larger publishers, especially the ones who have created studios and majored on native advertising and content creation for brands.

For smaller publishers this might mean working together to print first-party data at scale to brands. In the

US The Local Media Consortium has signed up over 5,000 local news outlets to build a first-party data system that would sell ad space across all their websites. This is likely to be replicated across Europe too.

For brands too it creates an imperative to match the data on their own with the information harvested by the media companies. Matching these can deliver detailed depictions of consumers, their online behaviours in their purchasing habits. One innovative type of partnership revolves around the concept of data matching.

Publishers can ink deals with third-party data vendors to amplify the first-party data they get from consumers. Once they match the data they own about the reader with more general information from other

sources they will be in a position to know much more about their readers and be able to better target them. One interesting example of this is Vice Media, which has agreed a deal with credit history company Experian.

Another route to attaining first-party data that may become more significant is through mobile phone numbers. Kimmo Kiviluoto, Chief Data Scientist at Syno International, says: "Over 70% of all traffic is mobile, and mobile phone numbers are much more stable and unique than emails. Most people have just one mobile phone number but often three to five email addresses which keep changing.

"Mobile is currently the best ID system available, and technically easy and robust as well. So invest in collecting those, with the proper consents to use them as well!

"Syno provides technology for the publishers both to create their zero/first/second-party data assets, and to stay ahead of the curve with post-cookie world consumer identity management.

"Moreover, we're investing substantially in our Connected Data solutions, making it possible for the publishers and their key partners such as advertisers and agencies to keep all their data connected, with full flexibility in provisioning various data sets to different stakeholders."

Syno is already working with a number of publishers including Bonnier and Schibsted and it claims its solution that works with hashed emails or phone numbers might even be a better solution than cookies.

The big question mark over first-party data though is that if it is to become the main engine of online advertising in the future, publishers and brands are going to have to work a lot harder to collate it. There is a risk of data fatigue with readers being constantly pestered to give information or create logins just to be able to access content.

Ultimately brands might have to realise that the campaigns they create might not be as targeted as they used to be as they are working with smaller amounts of data than before.

For some publishers and brands first-party data advertising campaigns might be their only option.

"Google will look to provide solutions for the advertising ecosystem once this rolls out, and if publishers don't

prepare that will be their only choice," said Daniel Powell-Rees, revenue operations director for Dennis.

"Advertisers could move away from the larger campaigns, which can be more challenging to measure even with third-party cookies, in favour of brand response campaigns, which are reliant on [the] last click," said Michael Hanbury-Williams, director of decision sciences for Universal McCann.

James Sleaford, Managing Director of UK and IE at Incubeta DQ&A, thinks that once again publishers, brands and agencies may need to re-examine how they are structured and look at how tech marketing and sales work together.

"By developing first-party data, companies can begin building audience segments and profiling



their customers, which will allow for effective targeting in a post-cookie world. However, to do this accurately it is vital to have reliable, clean, compliant, first-party data.

"As well as using first-party data, it

would be wise for businesses to look at their organisational structure in the coming years to break down silos between tech, marketing and sales. By integrating these departments, companies can better leverage their first-party data by creating clear
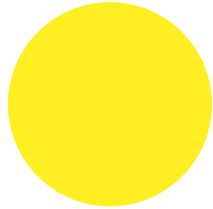
> "Mobile is currently the best ID system available, and technically easy and robust as well. So invest in collecting those, with the proper consents to use them as well."

KIMMO KIVILUOTO
SYNO INTERNATIONAL

lines of communication, which means the data can be used to the direct benefit of marketing and sales. This type of organisational restructure can take time so it's something that needs to be put into motion now."

For first-party cookie data to take centre stage requires a commitment from publishers and brands to capture that data.

We Are Social's Brittany Wickerson warns that the industry needs to be aware of the push back they might receive from consumers.

"I think we'll initially see a frantic push for data collection from businesses, with potentially limited value for the user, followed by more thoughtful experiences that add real value to people in exchange for their data and ultimately their engagement with and consideration of brands."

Yet in spite of any potential pitfalls publishers remain confident that quality content will always be a draw for savvy brands.

Julia Clyne, Head of Media and The Trust, APAC at Dow Jones says: "For a while, publishers have been

grappling with how best to derive value from the walled content gardens that they have built online.

"The truth is, any organisation that has built a robust digital channel that genuinely adds value to consumers as opposed to just being used as a communications channel will have an edge. In fact, any company with a meaningful direct digital relationship with customers could stand to benefit from the cookie-less world."

## THE ADTECH INDUSTRY'S RESPONSE: IDENTITY-BASED TRACKING

IN SOME respects both the Google FLoC and the first-party cookie solutions are regressive in that they don't provide the same levels of data, or indeed the same targeting opportunities as third-party cookie systems.

As mentioned previously, there is also the problem of scale in that both systems require the
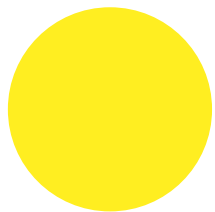
"Based on the long-term trend towards consumer empowerment over how their digital data is collected, traded and used, Google doesn't believe alternative identifiers (such as Unified ID 2.0 or netID) will be viable solutions in the cookie-less future."

JAMES SLEAFORD, INCUBETA

33

industry to change its practices to systems that are arguably more cumbersome and time-consuming than the third-party cookies-based system that they currently use.

Both are also very challenging for the existing adtech industry, which would be much more limited in its activities and opportunities.

So not surprisingly then the industry has proposed its own third-party cookie solution - identity-based tracking.

It relies on a central authority – at the current time there is no hard proposal as to who this might be – to assign every web user an advertising ID. To do this would mean matching the ID with an email address. Then each time the user logs in to a website with that email address the advertisers could track them and serve them appropriate advertising.

One of its advantages is that like the other two proposals it protects the users privacy. As the User IDs would be encrypted advertisers only see a random string of characters that correspond to an email address, but not the email address itself.

There are however a number of key barriers to this system actually establishing itself.

Firstly, it needs industry-wide backing and this is by no means a given. Secondly, it would require consumers to log into sites using their email addresses. Whether consumers would agree to do this, especially if they understand that privacy issues have already been the catalyst for significant changes in the advertising system, remains to be seen.

In some ways this is third-party cookies via a back door. If it was established many of the practices that are a feature of the third-party cookie ad system would be retained.

It might even end up delivering more accurate data than third-party cookies-based systems as that data would come directly from logged-in users.

The concept has largely been driven by a leading ad tech company The Trade Desk. Its proposal, which it calls Unified ID 2.0,. already has the backing of both smaller adtech companies alongside industry bodies like the Interactive Advertising Bureau (IAB) Tech Lab and the Partnership for Responsible Addressable Media (PRAM), which

are developing technical standards for identity-based tracking.

Ultimately it would be for the adtech industry to convince brands, publishers and the tech companies that what they are proposing will benefit all parties, not just the adtech companies and the bodies that govern and regulate them.

Yet there are many voices in the industry who argue that these types of systems will be thwarted by the tech companies anyhow.

Incubeta DQ&A's James Sleaford argues: "Google has encouraged advertisers to begin using Google Cloud Solutions for bespoke audience and measurement use cases, with Google stating it won't be using any ID solutions that it doesn't own in its ad buying tools.



"This is a clear indication from Google that, based on the long-term trend towards consumer empowerment over how their digital data is collected, traded and used, they don't believe alternative identifiers (such as Unified ID 2.0 or netID) will be viable solutions in the cookie-less future."

As for the publishers it seems many are adopting a watch and wait approach, albeit tinged with a touch of scepticism.

"The one thing you can be certain of however, is that any solution that is not reliant on our first-party relationships will need to be compliant, not only to the letter of the legislation, but also in the spirit," argues Duncan Tickell, Immediate Media.

"And what we're seeing is that some of these proposed solutions are more in the former camp, rather than in the spirit. And so we're watching very closely to see how the situation unfolds, to ensure that we can maximise the opportunity that ensues."
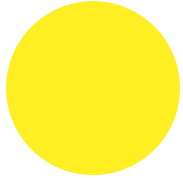
> "The shift from third-party cookies will be as fundamental as the shift to web-based services and smartphones at the start of the 21st century."
>
> JULIA CLYNE,
> DOW JONES

## CONCLUSION

DOES THE demise of third-party cookies represent an opportunity for publishers? Inevitably it depends who you talk to, but it is clear that the prospect of a clean slate in which publishers have a greater degree of control over online advertising is very attractive to many companies in the industry.

"Google's announcement is a pivotal moment, forcing advertisers to move from an obsession with tracking and hyper-personalisation towards meeting consumer privacy standards," suggests James Sleaford.

"Crucially, it is possible to effectively advertise without cookies and personal identifiers through contextual advertising and predictive modelling. Contextual advertising in particular is a strategy brands can use effectively in a future without third-party cookies. However, for this technique to work effectively brands will need to continue to offer value and draw on their creative to generate engagement."

Permutive's Joe Root also welcomes the shift in the balance. "The removal of third-party cookies from Chrome presents an opportunity for publishers to become guardians of data on the open web, providing a privacy-safe route for advertisers to continue to reach valuable audiences," he says.

Yet the move may mean that smaller publishers have to adopt more creative approaches to monetise their content. "In the short term it will be challenging. In the long term, it will encourage them to diversify revenues and look to consumer direct revenues as a sustainable revenue source," says Axate's Dominic Young.

"Publishers need to wean themselves off a dependence on ad revenues because the dynamics of that market have permanently changed

and publishers will never again be as dominant as they were pre-internet.

"Any publisher should be asking themselves how their future business could thrive with no ad revenues at all. If they can do that, the ad revenues they do earn will be additive to their bottom line, but not the sole source of profit."

What is the shift though likely to mean for brands? Remi Cackel, Chief Data Officer at global media platform Teads, believes that while there are positives from the demise of third-party cookies, brands need to remain agnostic about the future.

"One of the main findings from our Forrester study is that advertisers and publishers should partner to solve data deprecation and identity challenges. It shows that advertisers are hungry for deeper contextual data and are growing their direct publisher relationships to gain access to data and insights. Working directly with publishers is a viable option for advertisers that exists today.

"The deprecation of third-party cookies was always going to happen. Google has made a key step due to the scale of their browser but, whether it came from them or government regulators, this change was always on the horizon.

"What we've seen so far from Google is an attempt to figure out the most effective solution for digital advertising via their best platform, Chrome. But our key message to brands is not to base their targeting strategy on a single solution. The market is changing rapidly so testing multiple cookie-less alternatives to deliver effective, sustainable and responsible marketing campaigns is the solution to long-term marketing success."

Whatever occurs over the next 24 months, pretty much everyone agrees that the media industry will never be the same again.

Julia Clyne, Head of Media and The Trust, APAC at Dow Jones concludes: "The changes announced by Google to phase out third-party cookies brought a critical urgency to the 'first-party data revolution' that had already begun among many organisations. The shift away from third-party cookies will be as fundamental as the shift to web-based services and smartphones was at the start of the 21st century." ●

# FIPP
## Connecting Global Media

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