State of the Industry Report

What The Loss Of Third-Party Cookies Means For Broadcasters

NAB
NATIONAL ASSOCIATION OF BROADCASTERS

PILOT
NAVIGATING BROADCASTING'S FUTURE

BORRELL
ASSOCIATES

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**State Of The
Industry Report
Compiled By
Borrell Associates Inc.
On Behalf Of The
National Association
of Broadcasters
and PILOT**

About this Report

The National Association of Broadcasters and PILOT engaged Borrell Associates in July 2022 to compile this State of the Industry report on the impending deprecation of 3rd-party tracking cookies used in digital advertising. The goal was to estimate the financial impact on broadcasters, gauge the industry's level of preparedness, and identify best practices among those who were most prepared. The research included more than two dozen telephone and in-person interviews with broadcast executives throughout July and August, an online survey of 54 broadcasters, and a review of literature and other research on the topic.

Executive Summary

This year, local broadcasters are on track to generate $5.4 billion in digital ad revenue, mainly via the sale of banners and streaming video ads. More than one-third of that revenue is dependent on a small bit of tacking technology known as 3rd-party cookies, which is being phased out.

A few broadcasters have been prepping for this change since 2016. Most, however, didn't begin planning until this year, when Google's phase-out of cookies became more imminent. Then, on July 27, Google delayed its plans by 18 months, until the end of 2024, buying the industry more time.

The delay has given broadcasters some time to answer important questions. What is the threat, exactly? How big will the losses be? Is anyone sufficiently prepared? How have other broadcast companies been planning for this? The intent of this paper is to provide some answers. The key findings so far:

- The U.S. broadcast industry would lose $2.1 billion in annual revenue if 3rd-party cookies vanished today. This equates to:
    - 6.3% of the industry's total advertising revenue
    - An annual loss of $1.1 million for the average TV station
    - An annual loss of $735,163 for the average multi-station radio market cluster
- Absent any action by broadcasters, losses could be 40% larger by the end of 2024, when the actual phase-out would occur.
- Ninety percent of broadcasters have had at least some internal discussions about what to do, but the sense of urgency deflated in July when Google postponed its plans.
- One-fifth of broadcasters have a cross-departmental team that meets regularly to develop contingency plans. Seventy percent have no specified team, meet only occasionally, or have had only informal discussions. Ten percent have done nothing.
- Broadcasters may have developed an overdependence on the two main ad products that rely on cookies: programmatic display and audience extension banners. While these products generate easy money, a comprehensive study in 2019 suggests that publishers are overestimating their value and profitability.
- Best-practice radio and TV stations have prepared themselves by developing 1st-party data initiatives. These stations have amassed permission-based customer lists totaling 50,000 to 80,000 individuals per market. It typically represents less than 10% of their total listening/viewing audiences and less than 6% of their market's total population.

When it occurs, the phase-out of 3rd-party cookies is likely to deliver more benefit than loss to broadcasters. The main benefit may be that it motivates broadcasters to take control of their own audiences by establishing a 1st party relationship with viewers and listeners who've remained anonymous for decades. A secondary benefit could be that broadcasters begin reaching beyond their traditional audiences, developing relationships with new audiences altogether—some of whom may reside outside their traditional broadcast geographies.

And that could have broad, positive effects that extend well beyond any revenue generated by digital ad sales.

It's difficult to talk about 3rd-party cookies without first understanding what cookies are and why, despite any phase-out, they'll likely be with us forever. It's also helpful to understand the result of efforts to control cookies in recent years. Those results haven't always turned out as one might expect.

The term cookie comes from "fortune cookie," which contains an imbedded message. In internet vernacular, a cookie refers to a small string of data that contains information about your activities as you browse the web or use an app. It's stored on your computer. You can delete them. Many people actually do. But we'll get to that later. Cookies were invented by a Netscape employee named Lou Montilli in 1994, just as cruising the world wide web was becoming popular. Montilli wanted to store information about a Netscape visitor to make that person's next visit a better experience. It's the same concept as returning to a store and having an employee greet you by name and say, "Hey, we've got those new shoes you've been looking for." The difference is, cookies store your personal information and get traded.

Two years after browser cookies were invented, Microsoft began using them in Internet Explorer to serve something more valuable than a "welcome back" message. They were used to deliver the first targeted banner ads. And that's when privacy issues erupted.

To set the record straight, data and cookies are two different things. Cookies are stored bits of information that rely on user data. There is 1st-party, 2nd-party, and 3rd-party data. An easy way to understand it is that you own 1st-party (visitor activity on your site), a partner owns 2nd-party data (e.g., a car dealership's customer data), and a data broker owns 3rd-party data. There's even something called zero party data, which refers to data that a customer voluntarily gives up (e.g., name, email address, or other info for site registration or contest entry). To keep things simple, when we say "1st-party data," our reference will include zero party data.

For the purposes of this paper, we are focusing on cookies. And, really, just two types: 3rd-party cookies and 1st-party cookies. Here are the differences:
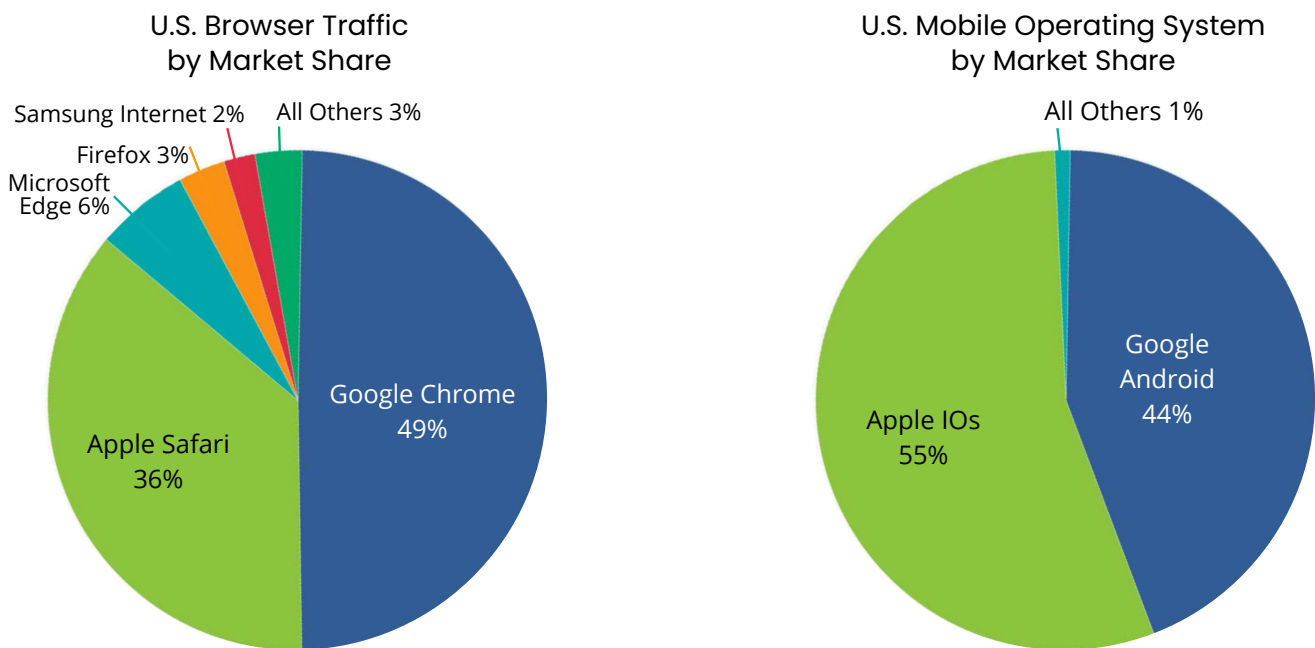
- **1st-Party Cookies.** These come from the data that a publisher owns. They are set directly by the website owner and accessible only by that website owner. They retain information such as your username and password, which language you prefer, and what you stored in your shopping cart. They're designed to help websites deliver better user experiences and may require a user to furnish information such as name, email address, or other identifying information.
    - ° **IN PRACTICE:** A local TV or radio station runs a contest or creates a newsletter, app, or text alert program that requires a user to sign up. This is 1st-party data. If the user grants permission, the station can then use the data in tracking cookies that identify the user and deliver targeted ads while on the publisher's website. If you've ever returned to Amazon and seen that you left something in your shopping cart on the last visit, 1st-party cookies are to credit.
- **2nd-Party Cookies.** These come from the data that a partner owns.
- **3rd-Party Cookies.** These are the backbone of programmatic advertising. They are gathered by third parties that are not the website you are visiting and are used mainly to create a profile that is used to determine what type of banner ad to show you. They are accessible on any website that loads the third-party server's code. Apple's Safari browser automatically disabled 3rd-party cookies in 2020, and Firefox disabled them in June 2022. Google's Chrome allows them by default (meaning user activity is tracked unless that user disables cookies within the browser).
    - ° **IN PRACTICE:** In order to participate in digital programmatic ad networks, a TV or radio station website loads code from an ad-tech vendor such as Simpli.fi, Basis (formerly Centro), Trade Desk, etc., onto its website. Ads are then served to site visitors by a third party based on each visitor's cookie profile. Also, the station may sell "audience-extension" banners, which are banners that appear on other websites across the market. These also rely on 3rd-party cookies. An example

would be an auto dealer in Atlanta who wanted its banner to not only appear on the station's website, but also to reach any internet user in Atlanta who had visited a car-buying site in the past 30 days. The station would sell the dealer banners that would appear on hundreds of other local websites being used by potential car buyers who fit that correct profile.

How broad is the 3rd-party cookie problem? Here's something that might surprise you: more than two-thirds of internet traffic in the U.S. does not rely on 3rd-party cookies. That's because some browser companies or mobile operating systems have already blocked or severely restricted cookie usage, and because a large portion of Internet users have disabled cookies in their own browsers.

The issue is focused almost entirely on Google's Chrome browser and Android mobile operating system (or more specifically, apps that run on Android phones). Collectively, Chrome users account for half of internet traffic and Android users account for 44% of mobile users. The rest is controlled mostly by browsers or operating systems that are automatically blocking cookies.

Assessing Google's Share of Browsers & Mobile Devices

U.S. Browser Traffic by Market Share

Samsung Internet 2%
All Others 3%
Firefox 3%
Microsoft Edge 6%
Google Chrome 49%
Apple Safari 36%

U.S. Mobile Operating System by Market Share

All Others 1%
Google Android 44%
Apple IOs 55%

Source: Statcounter, July 2022

Although Chrome and Android account for significant portions of web traffic and mobile app usage, a large percentage of Chrome and Android users have already disabled 3rd party tracking. The result is that only 29% of web traffic is available for targeted advertising via 3rd party tracking.

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Chrome
of the O...

Advertising Addressability
within Chrome Browser

...g Addressability
...the Open Web

49%

60%

29%

meaning only 29%
of web traffic is
accessible via
3rd-party
cookies

Chrome has 49%
of total web traffic, but
only 60% of users
enable tracking cookies...

Source: ExchangeWire, August 2022
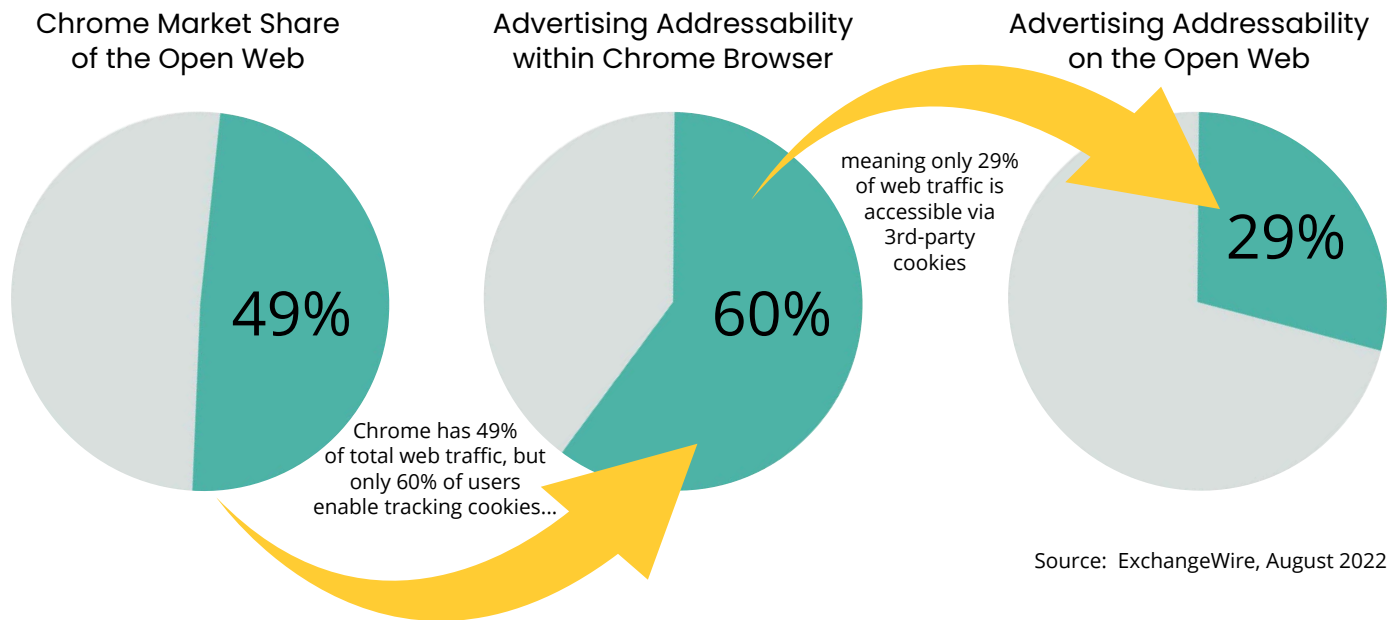
It's an important 29%, however. That's because it's where the lion's share of display advertising occurs. Google is by far the largest advertising company among any of the other browser or operating systems by a factor of at least 20. Microsoft, which owns the Edge browser, reported $10 billion in total ad revenue last year. Apple's ad revenue was estimated at $4 billion. Google's was $209 billion. We'll break down the financial impact to local broadcasters in the next chapter.

What We've Learned From Other Efforts To Curtail Cookies

The past decade has given us a glimpse of the end result of efforts to block 3rd-party cookies. There are lessons to be learned, particularly the comprehensive and well-planned efforts in Europe. Here's the timeline of major developments and results over the past 11 years:

May 2011

The European Union Cookie Law, also known as the ePrivacy Directive, takes effect. It requires sites to get consent from visitors before placing cookies on their devices. The law was met with confusion at first, then gradually yielded an experience that led to a more acceptable and enforceable policy to be enacted seven years later.

September 2015

Apple introduces its first ad blocker to the Safari browser. Usage of ad blockers in the U.S. went from 15.7% of internet users prior to Apple's ad blocker to 27% in 2022. The greatest usage was among those age 18 to 29.

May 2018

Europe's General Data Protection Rules (GDPR) takes effect. This broad initiative revamps the 2011 "Cookie Law" requiring user consent to collect information and imposes heavy fines against violators. Six months after enactment, a Deloitte study finds that fewer than one-fourth of consumers have opted out of direct marketing from service providers and retailers. Four years later, the net effect to web publishers appears to be slightly negative on revenue but very positive on motivating them to develop 1st-party data initiatives.

January 2020

The California Consumer Protection and Privacy Act (CCPA) goes into effect, giving U.S. publishers their first taste of how they might have to comply with a government-instituted privacy policy. It requires publishers to get parental permission to collect information on minors and to display an opt-out link on the home page that says, "Do Not Sell My Personal Information." A year later, Digiday concluded that publishers incurred legal and software fees as a result of the new law, "but it turns out it's had little to no impact on ad revenues, prices or inventory."

March 2020

Apple initiates enhancements in 2020 that block 3rd-party cookies across the board to its iPhones, and iPads, and Safari browser. Within two years, 46% of iPhone app users have consented to tracking. While no one has gauged the overall financial impact on targeted advertising, Meta estimated that the changes by Apple cost Facebook $10 billion in lost advertising.

January 2020/March 2021/July 2022

Google announces in 2020 that it plans to phase out 3rd-party cookies in early 2022. A year later, the date gets pushed back to late 2023. On July 27, 2022, Google pushes back the date to second-quarter 2024.

When we interviewed broadcasters for this report, we found that internal initiatives began forming around the time the GDPR went into effect. The implementation of GDPR represented an opportunity to understand the implications and opportunities in the U.S. In fact, GDPR yielded many clues to what a cookie-less future might look like.

One key finding came from *The New York Times*, where 15% of its 2.9 million subscribers are in Europe. Once GDPR was implemented, The Times blocked all open-exchange ad buying and behavioral targeting on its European pages. It then focused on delivering ads based on two things that don't depend on user permissions: contextual and geographical targeting. Digital ad revenue increased significantly, according to Jean-Christophe Demarta, senior vice president for global advertising.[1]

"The fact that we are no longer offering behavioral targeting options in Europe does not seem to be in the way of what advertisers want to do with us," Demarta was quoted as saying in a 2019 Digiday article. "The desirability of a brand may be stronger than the targeting capabilities. We have not been impacted from a revenue standpoint, and, on the contrary, our digital advertising business continues to grow nicely."

Business Insider, a U.S. financial website owned by German publishing house Axel Springer, reportedly receives 10% of its ad revenue from Europe and chose not to end behavioral targeting but to comply with the GDPR consent rules. In January 2019, seven months after the rule was enacted, a Business Insider executive reported that opt-in rates were high and that ad revenue hadn't been affected.

Momentum has been building in the U.S. to follow the European Union's lead. At this writing, there is no comprehensive policy under consideration at the federal level. All activity has been at the state level. Five states (California, Colorado, Connecticut, Utah, and Virginia) have enacted laws offering consumers the right to access and delete personal information and to opt out of the sale of their personal information. Four other states (Michigan, New Jersey, Ohio, and Pennsylvania) have legislation actively under consideration.

But there is the Google phase-out to contend with, and if Facebook can point to a $10 billion loss from Apple's ad-blocking actions, what might the effects be on the U.S. broadcast industry, which continues to grow more dependent on digital advertising?   We address that in the next chapter.

"**The fact that we are no longer offering behavioral targeting options in Europe does not seem to be in the way of what advertisers want to do with us,**" **Demarta was quoted as saying in a 2019 Digiday article. "The desirability of a brand may be stronger than the targeting capabilities. We have not been impacted from a revenue standpoint, and, on the contrary, our digital advertising business continues to grow nicely."**

[1] "After GDPR, The New York Times cut off ad exchanges in Europe – and kept growing ad revenue," Digiday, Jan. 16, 2019.

Digital advertising used to be little more than an interesting add-on for most broadcasters. Things changed in 2020, when broadcast sales plummeted and digital sales skyrocketed. The net effect was a 10-point jump in the share of ad sales represented by digital advertising since 2019. This year, digital advertising will represent 25% of TV's total ad revenue and 24% of radio's ad revenue.

In all, local broadcasters will make about $5.4 billion this year from digital advertising sales—$3.5 billion for the local TV industry and $1.9 billion for radio stations. The average TV station will make $3.0 million, and the average radio multi-station market cluster will make $1.9 million.

So, as we face the phase-out of 3rd-party cookies, three questions arise:

1 How much of that digital revenue is vulnerable?

2 How valuable is the "vulnerable" portion of digital revenue?

3 What will replace that revenue?

How much of broadcasters' digital revenue is vulnerable?

In 2022, local businesses are on track to spend $130 billion on advertising. Slightly less than 10% of all local advertising relies on 3rd-party cookies.

That may seem small, given the hubris around the phase-out of cookies. As a share of digital advertising, it's still just 15%. That's because three-fourths of digital advertising involves formats that don't rely on cookies: paid search, streaming audio, and streaming video/OTT. And not all targeted banner ads rely on 3rd-party cookies. Targeting can be accomplished through content or geography (derived from the IP address of the site visitor).

Because broadcasters can't participate much in search advertising, they depend more heavily on behavioral targeted display ads. When we asked two dozen broadcasters to estimate what percentage of their digital revenue depended on 3rd-party cookies, answers ranged from 20% to more than 50%. Using that guidance and examining our database of digital revenue encompassing nearly 4,000 stations, we concluded that 39% of broadcasters' digital revenue relied on behavioral targeting.
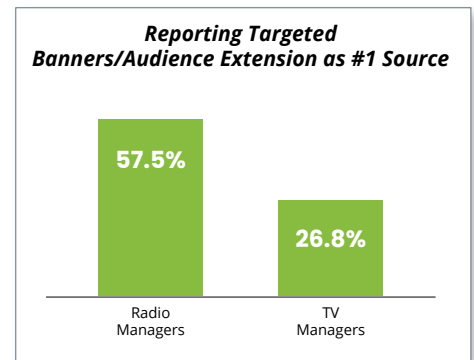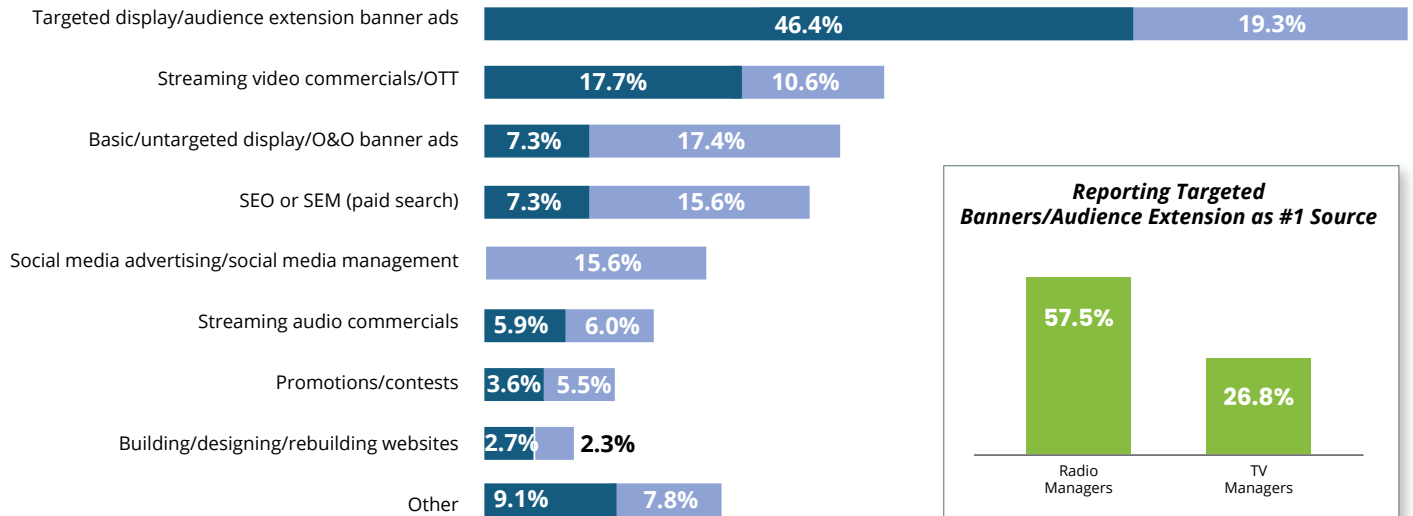
Given that broadcasters will make $5.4 billion this year on digital ad sales, that puts their vulnerability at $2.1 billion. Third-party programmatic and audience extension ads are the largest single sources of digital revenue for many broadcasters. More than half of radio stations and more than one-fourth of TV stations report that targeted banners and audience extension products are their No. 1 source of revenue. And outside of OTT sales, they are among the fastest growing.

Targeted Banners Are Top Source of Digital Revenue for Most Local Media

? What was your **SINGLE LARGEST/2nd LARGEST** source of digital ad revenue in 2021?
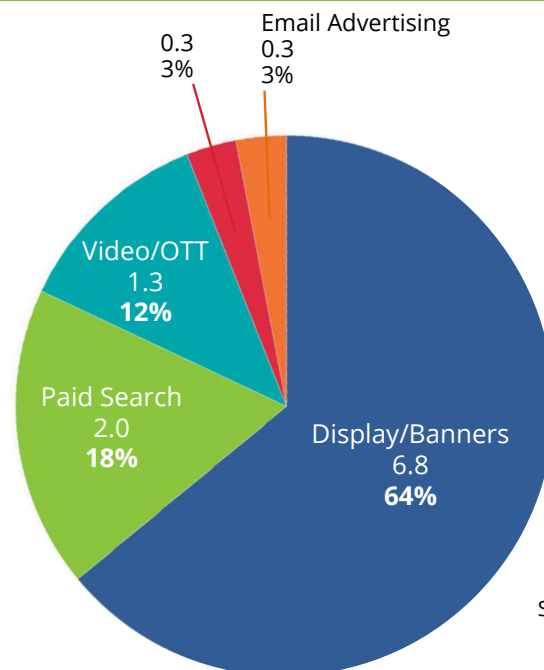
■ Largest   ■ 2nd Largest

Source	Largest	2nd Largest
Targeted display/audience extension banner ads	46.4%	19.3%
Streaming video commercials/OTT	17.7%	10.6%
Basic/untargeted display/O&O banner ads	7.3%	17.4%
SEO or SEM (paid search)	7.3%	15.6%
Social media advertising/social media management		15.6%
Streaming audio commercials	5.9%	6.0%
Promotions/contests	3.6%	5.5%
Building/designing/rebuilding websites	2.7%	2.3%
Other	9.1%	7.8

Reporting Targeted Banners/Audience Extension as #1 Source

Radio Managers	TV Managers
57.5%	26.8%

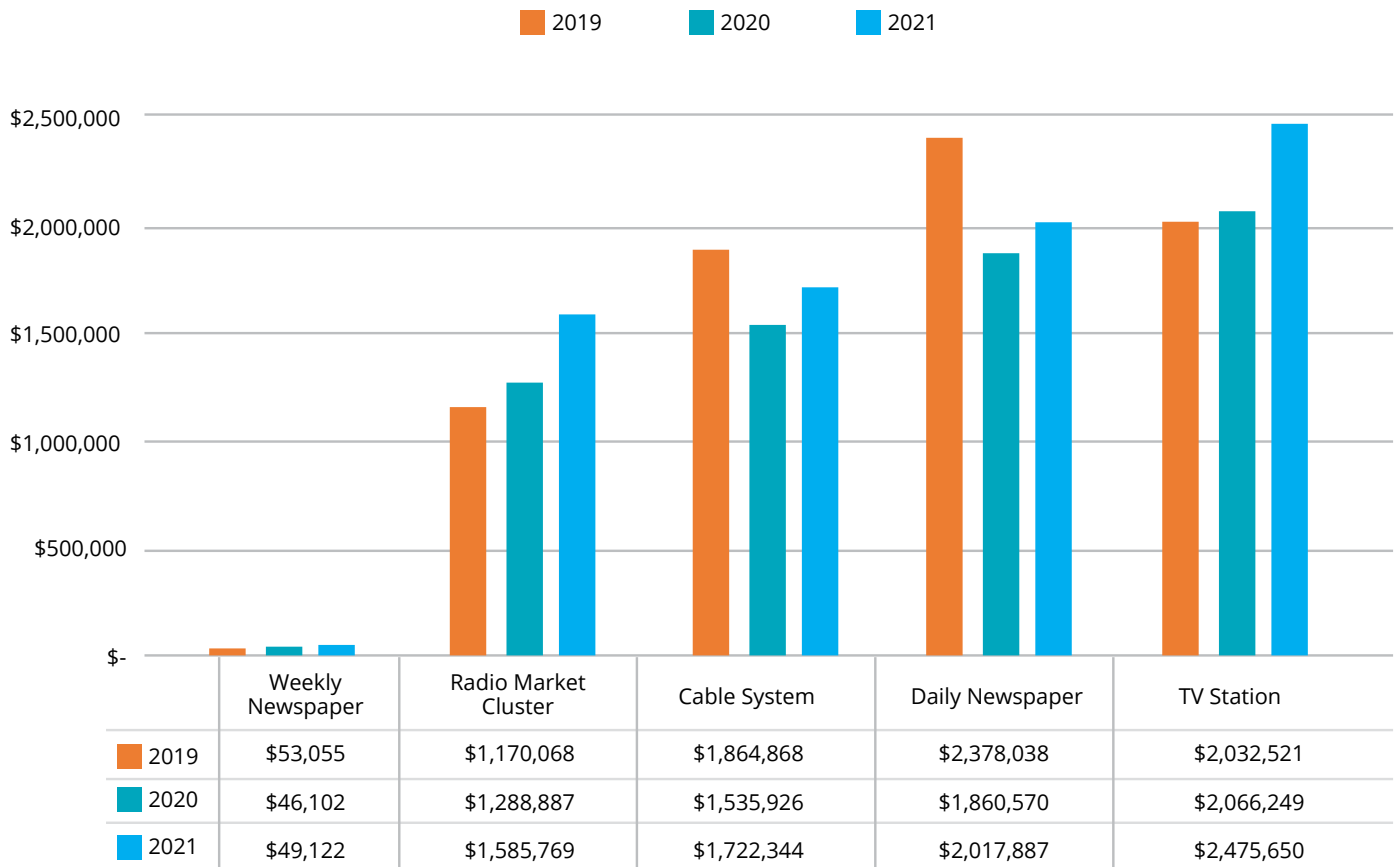Survey of 220 local media managers, April 2022

Local media companies (including newspapers, radio, TV, cable, and other local ad sellers) are heavily reliant on banner ads. In 2021, nearly two-thirds of their digital revenue came from banners. The rest was derived from pre-roll and other ad insertions in streaming video/OTT, streaming audio, email ads, and from reselling paid search ads.

2021 Digital Revenue for U.S. Local Media Companies by Format

- Display/Banners 6.8 **64%**
- Paid Search 2.0 **18%**
- Video/OTT 1.3 **12%**
- 0.3 **3%**
- Email Advertising 0.3 **3%**

Source: "Benchmarking Local Media's Digital Revenues," Borrell Associates, April 2022

Average Digital Revenue by Type of Local Media Entity, 2019-2021

Legend: ■ 2019 ■ 2020 ■ 2021

	Weekly Newspaper	Radio Market Cluster	Cable System	Daily Newspaper	TV Station
2019	$53,055	$1,170,068	$1,864,868	$2,378,038	$2,032,521
2020	$46,102	$1,288,887	$1,535,926	$1,860,570	$2,066,249
2021	$49,122	$1,585,769	$1,722,344	$2,017,887	$2,475,650

Source: "Benchmarking Local Media's Digital Revenues," Borrell Associates, April 2022

How valuable is the "vulnerable" portion of digital revenue?

There's no doubt there is greater profit in selling one's own advertising inventory. Programmatic and other behaviorally targeted advertising can have lower margins even though CPMs are typically higher. A comprehensive study three years ago quantified the problem.

In 2019, researchers at three universities tracked two million transactions by 5,000 advertisers over 60 websites. The intent was to compare revenue for publishers that used tracking cookies, versus those that did not. The report found that:

- Advertisers were willing to pay 2.8 times more for behaviorally targeted ads
- The average CPMs for all advertising sold on sites that employed tracking cookies was 56% higher than those that did not offer tracking ($1.18 vs. $0.74).
- Total revenue for sites that used tracking cookies was 4% higher vs. sites that did not.

One reason for the relatively minor lift in revenue may be that, unlike selling banner ads on their own websites and mobile apps (O&O inventory), tracking cookies require a 3rd party—sometimes more than one—that charges fees. "Much of the premium likely is being eaten up by the so-called tech tax, the middlemen's fees that eat up 60 cents of every dollar spent on programmatic advertising," according to the World Advertising Research Center (WARC).

Some digital advertising experts agree that the value of tracking cookies is questionable. Michael Zimbalist, chief strategy officer at The Philadelphia Media Network and former SVP of Advertising Products at The New York Times, thinks behavioral advertising has been "completely overhyped." But he foresees the deprecation of 3rd-party cookies benefiting some publishers – especially large broadcasters.

"The death of the 3rd-party cookie will privilege those entities that have scale and good 1st-party data," Zimbalist said. "Sadly, most small publishers will not benefit. However, broadcasters are different and may do well, particularly the O&Os of big entertainment conglomerates who have streaming services."

"

"The death of the 3rd-party cookie will privilege those entities that have scale and good 1st-party data."

Michael Zimbalist, Chief Strategy Officer,
The Philadelphia Media Network

What will replace that revenue?

The phase-out of 3rd-party cookies won't end the demand for targeted advertising. By some measures, it seems to have increased it. There are several things to consider:

- Behaviorally targeted banners can still be sold. A certain percentage of site visitors will opt-in to allowing at least some of their personal data to be used. After GDPR was implemented in Europe, 76% of consumers had opted in to receive direct marketing. However, that figure may be driven by consumers giving consent to the publisher's site to use the data (which would be 1st-party data), and perhaps not consent for it to be sold (3rd-party data). The results from Apple's actions in 2020 may be more applicable. In that case, 46% of iPhone users consented to allowing their data to be used for direct marketing.
- Other forms of targeting are not restricted and will live on. These include contextual targeting and geographic targeting, neither of which needs a site user's consent.
- Marketing budgets won't shrink; that money will just be allocated in new ways. The demand for targeted advertising won't vanish, either. In fact, the decline in availability of behavioral targeting may increase the demand for other forms of targeted display.

As mentioned earlier, a benefit to European publishers after GDPR took effect was that it forced them to step up their efforts to develop 1st-party data. That, of course, allows them to offer targeted advertising to their own site visitors (who consent to allowing their information to be used that way). A recent project among four media publishers in the U.S. showed a positive effect on ad revenue when 1st-party data was used.

The pilot project, called NewsPassID, was coordinated by the Local Media Consortium in the latter half of 2021. It involved two newspaper publishers (McClatchy and Lee Enterprises) and two TV broadcasters (Scripps and TEGNA) that helped create a network that made it easier for advertisers to reach their 1st party audiences. The program also helped participants retain more of every ad dollar spent because it reduced the number of intermediaries that take a cut of each ad buy. The result was significant increases in digital ad revenue. Also, some publishers saw up to a 25% increase in sold ad volume via programmatic channels because "match rates" increased.

The report concluded, "This suggests how opaque and lossy the programmatic advertising supply chain is when transacting on 3rd-party cookies extracted from publishers. The lack of fidelity with the audience and media being submitted for auction harms marketers' ability to target sound addressable audiences and publishers' ability to monetize their inventory."

With the pilot complete, NewsPassID is moving into a full rollout. By early September, eight media companies had been launched with 95 sites live, and 100 other sites were in the onboarding process. LMC expects the project to reach 1 billion monthly ad requests by early 2023.

Other industry-wide collaborations are under way. Two of the better-known ones include Unified ID 2.0, which an open-source industry initiative spearheaded by The Trade Desk, and TrustX, which is a cooperative programmatic marketplace created by the nonprofit trade association Digital Content Next.

To understand how broadcasters have been tackling these issues, we conducted more than two dozen in-person and telephone interviews with radio and TV operators and supplemented that information with an online survey of 54 individuals in charge of or involved with plans to deal with the cookie issue.

For the survey, half worked for radio companies and half for TV. Forty-five percent were with large companies, 40% with medium-size companies, and 15% with small. Their positions encompassed a mix of executive management (38%), tech (26%), advertising and marketing (26%), and content/programming (9%). The least-represented position was content/programming.

While one might expect that the larger companies have more sophisticated plans than the smaller ones, we didn't find that to be necessarily true. In fact, one very large broadcaster had neither a team in place nor had any formal discussions until we contacted them to discuss being interviewed for this project last August. Conversely, a small radio broadcaster is already four years into its planning and has mandated that every one of its markets grow its 1st-party data. To date, that company has amassed more than a half-million unique IDs across its handful of very small markets.

Overall, 90% of those surveyed said there was an urgency in their companies to develop contingency plans. We should note that the survey was launched after Google's announcement that it would delay the phase-out until 2024. In interviews throughout August, broadcasters told us that the internal sense of urgency had relaxed as a result. They said that was a good thing because many internal stakeholders hadn't been educated on the situation. Our survey verified that: Nearly two-thirds of respondents said executives at their company weren't all that knowledgeable about data strategies and privacy issues, although two-thirds were aware that there was a potential revenue loss on the horizon.

We found education to be an issue within organizations. One CEO, when asked whom we might interview at the company to discuss data initiatives, responded, "I guess I'm a bit fuzzy on these terms. I'm not sure what 1st- and 3rd-party data is."

One TV manager told us, "For many people who have spent their lives working in a linear broadcast world, explaining the concept of addressable advertising can be like trying to explain the fourth dimension."

"

"I guess I'm a bit fuzzy on these terms. I'm not sure what 1st- and 3rd-party data is."

Radio Company CEO

"

"For many people who have spent their lives working in a linear broadcast world, explaining the concept of addressable advertising can be like trying to explain the fourth dimension."

TV Manager

90% Feel At Least 'Some' Urgency

? How would you describe the urgency in your company to find a solution to the elimination of personal data by Apple and next year's Google Chrome's phase-out of cookies?
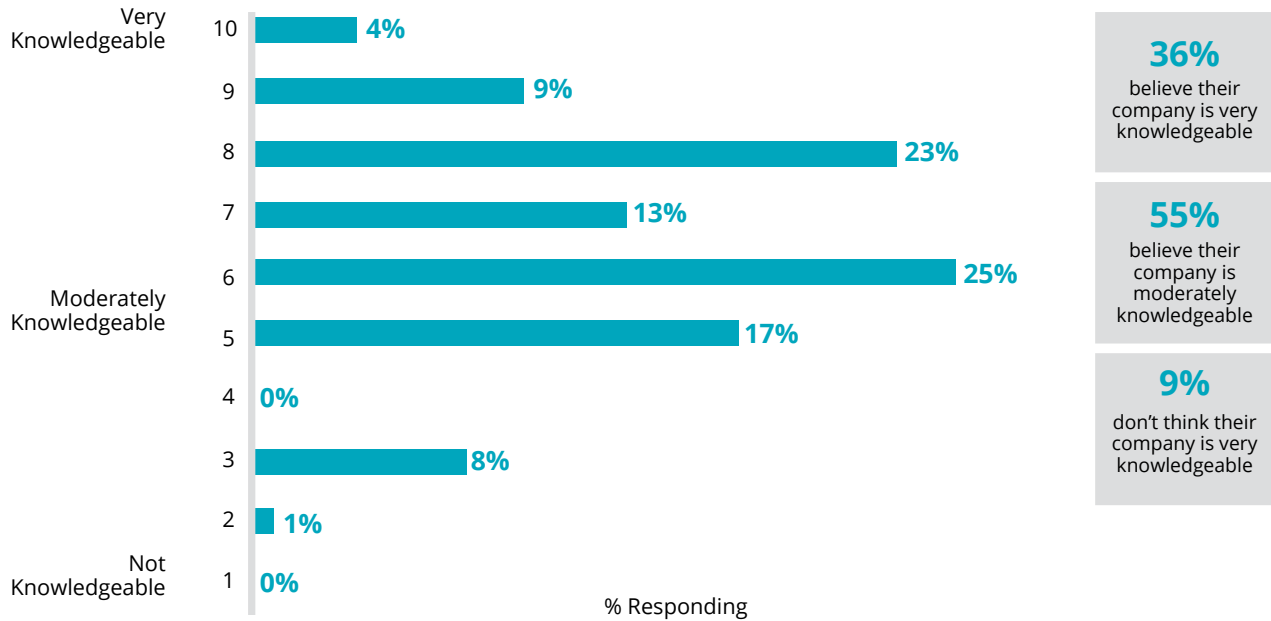

Extremely urgent	Urgent	Somewhat urgent	Not very urgent	Not urgent at all
13%	45%	32%	8%	2%
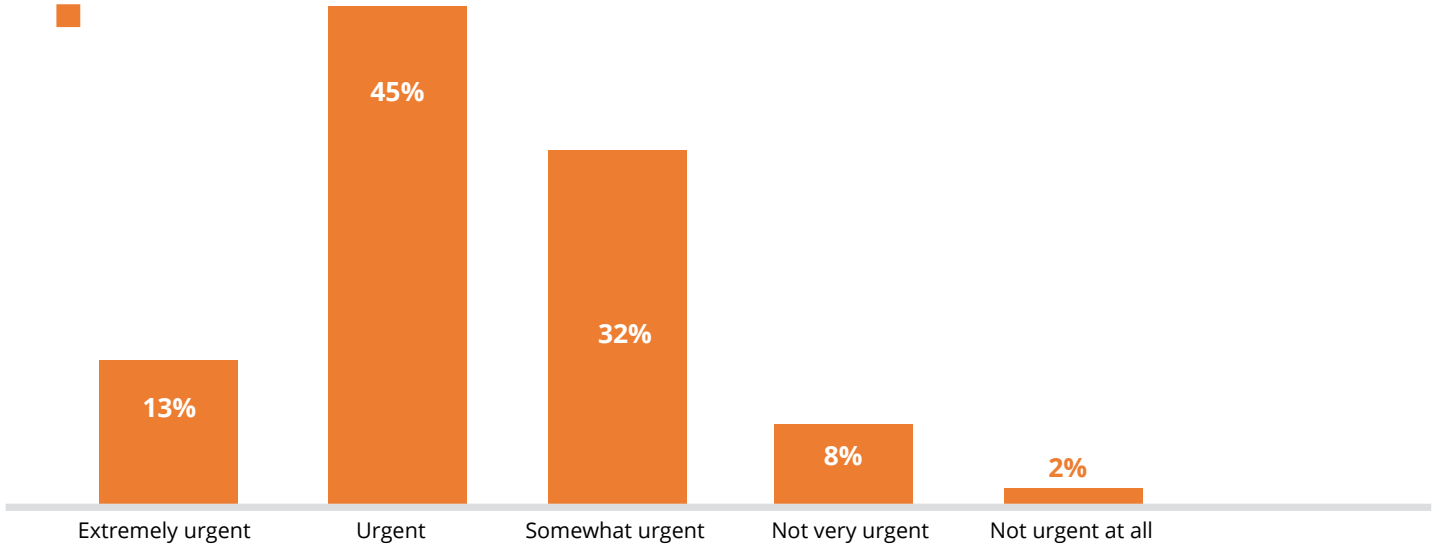
Source: Borrell's August 2022 survey of 54 radio & TV managers

We also found that 27% of broadcasters surveyed had a formal team with a single point person in charge. Sixty-three percent said they were discussing the issues and making plans via a cross-departmental team that tackled other issues as well. Ten percent had no discussions. We think the actual "no discussion" percentage is probably higher, especially among the many smaller broadcasters with limited resources.

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91% Have At Least Some Knowledge of Data/Privacy Issues

? How would you rate your company's depth of knowledge on data strategies and privacy issues?
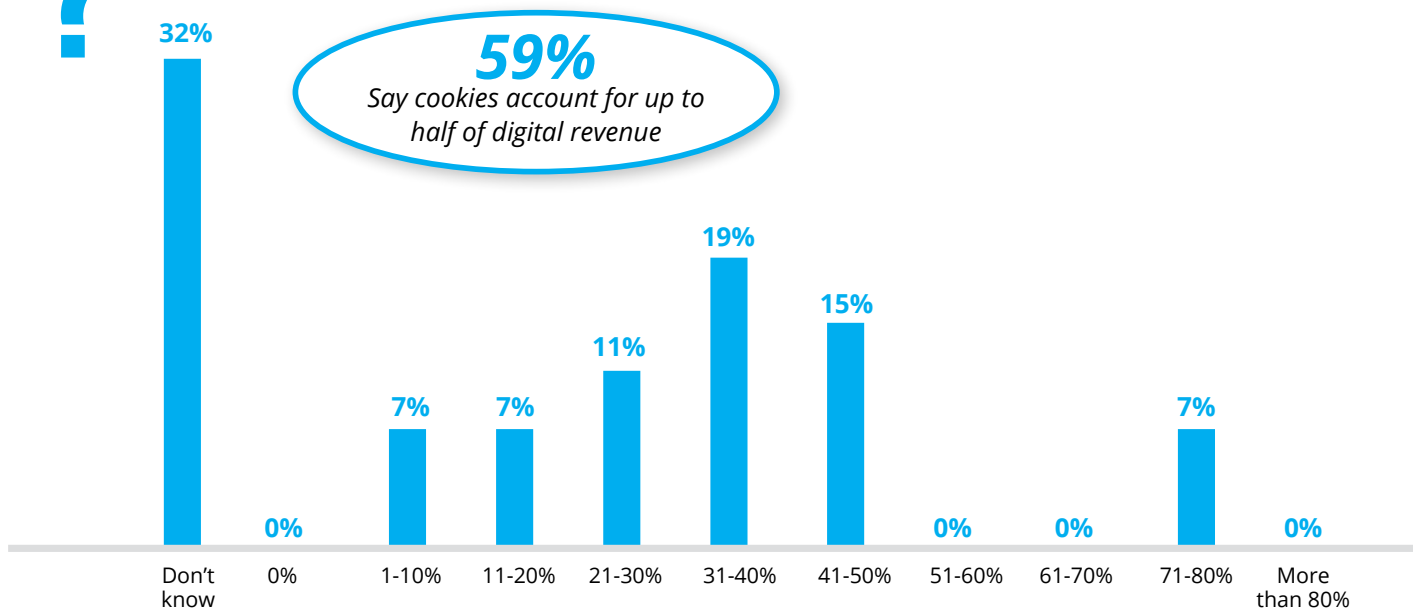
Rating	% Responding
Very Knowledgeable — 10	4%
9	9%
8	23%
7	13%
6	25%
Moderately Knowledgeable — 5	17%
4	0%
3	8%
2	1%
Not Knowledgeable — 1	0%

% Responding

36% believe their company is very knowledgeable

55% believe their company is moderately knowledgeable

9% don't think their company is very knowledgeable

Source: Borrell's August 2022 survey of 54 radio & TV managers

In terms of how much of broadcasters' digital revenue might be vulnerable, in the previous chapter we estimated the average at 39%, which equates to $2.1 million in 2022. Our survey and interviews indicate that the range for most is between 25% and 55%.

Share Of Digital Revenue From 3rd-Party Data Varies

?

What percentage of total digital revenue was attributable to cookies / 3rd-party data in 2021?

59%
Say cookies account for up to half of digital revenue

Don't know	32%	
0%	0%	
1-10%	7%	
11-20%	7%	
21-30%	11%	
31-40%	19%	
41-50%	15%	
51-60%	0%	
61-70%	0%	
71-80%	7%	
More than 80%	0%	

Source: Borrell's August 2022 survey of 54 radio & TV managers.
NOTE SMALL SAMPLE SIZE: 37 respondents when excluding "don't know"

Although not many efforts by broadcasters focus exclusively on the issue, there is significant other activity around helping staffs understand the situation. Nearly two-thirds of survey respondents said their companies had conducted a data audit to determine how data was being collected, stored, accessed, and leveraged across their stations. Thirty-nine percent said they had either conducted a formal risk assessment or were planning to do so. Sixty-three percent had privacy consent policies in place, and 26% had trained at least some of their staffs on relevant data and privacy issues this year.

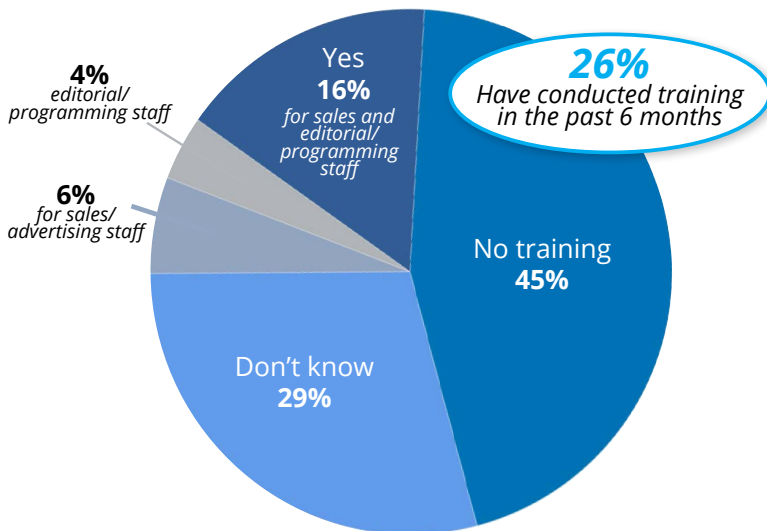# Broadcaster's First Steps: Data Audits, Risks Assessments, Consent Policies, Training

Have you conducted a data audit that includes how data is collected, stored, accessed, and leveraged?
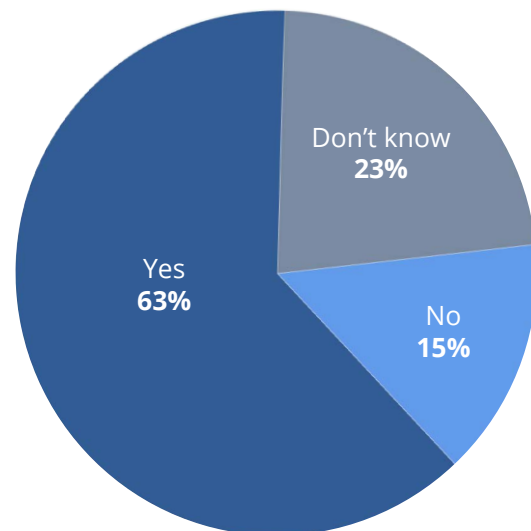
- Yes 63%
- No 23%
- Don't Know 14%
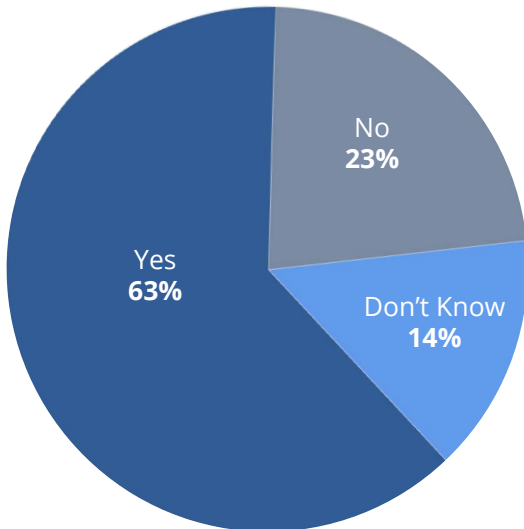
Has your co. conducted a formal risk assessment related to the development of 1st-party data, provacy, and protection?

- 4% No, but one is planned
- Don't know 13%
- We haven't discussed it 15%
- Yes 35%
- We've only discussed it 33%
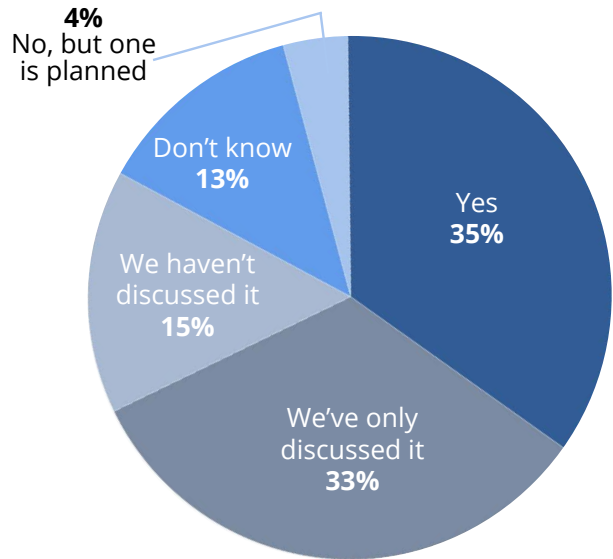
In the past six month, has your organization conducted data and/or privacy policy training?

- Yes 16% for sales and editorial/programming staff
- 4% editorial/programming staff
- 6% for sales/advertising staff
- No training 45%
- Don't know 29%

26% *Have conducted training in the past 6 months*

Do you have consent-management policies in place?

- Don't know 23%
- Yes 63%
- No 15%

Source: Borrell's August 2022 survey of 54 radio & TV managers

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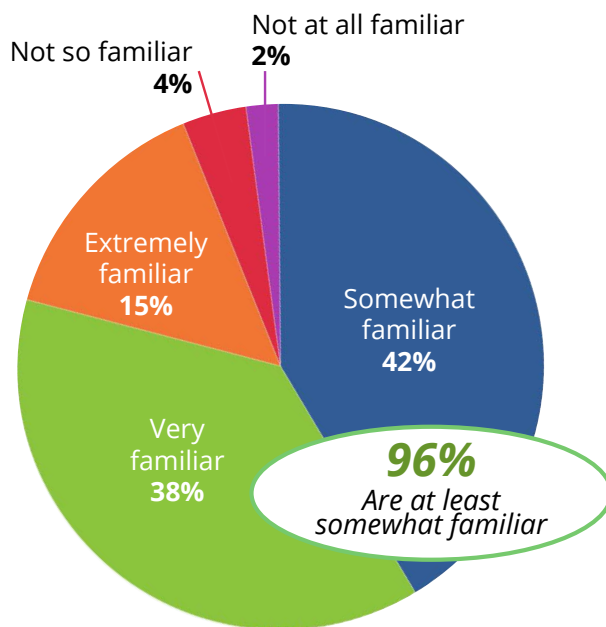**"We rely on vendors. They're the ones who are going to be hurting if they can't figure it out."**

Radio Manager

Several broadcasters told us they were relying on vendors to keep them updated. Companies mentioned were Adcellerant, AffinityX, Basis, Simpli.fi, and WideOrbit. There are certainly others furnishing programmatic and audience-extension products. "We rely on vendors," one radio manager said. "They're the ones who are going to be hurting if they can't figure it out. If they don't have a backup plan, they lose their clients." An executive with a radio group told us, "On the demand side, there's a lot of concern. That's where we really depend on behavioral targeting. We're really hoping that the Trade Desk and Google have this figured out."

The good news is, nearly all broadcasters surveyed had at least some familiarity with the solutions being discussed by the major players. More than half were very to extremely familiar.

Familiarity With Available Solutions

How familiar is your organization with targeting solutions being discussed by Google, Apple, Trade Desk, Microsoft and others?

Not at all familiar
2%

Not so familiar
4%

Somewhat familiar
42%

Extremely familiar
15%

Very familiar
38%

96%
Are at least somewhat familiar

Source: Borrell's August 2022 survey of 54 radio & TV managers

If losing behaviorally targeted advertising is a threat, the silver lining is that it may motivate broadcasters to develop personal relationships with their viewers and listeners who have remained anonymous for decades. In fact, publishers in Europe indicated that the biggest benefit of GDPR was motivating them to do just that.

Broadcasters Development Of 1st-Party Data

Serious initiatives by broadcasters to assess data privacy issues have inevitably led to one conclusion: Accumulating 1st-party data represents the biggest opportunity. They've also quickly learned that accumulating the data is the easy part. Using the information to personalize the user experience isn't too difficult, either. The big problem is in monetizing the effort.

We assessed a dozen radio and TV broadcasters who have been developing 1st-party data initiatives for the past several years. One started 10 years ago. Two others began in 2016. The other nine started between 2018 and 2020. They included a mix of smaller operations encompassing fewer than a dozen markets to larger ones that reached more than 100 markets.

Here is a summary of our findings of these 12 efforts:

- They generated 50,000 and 80,000 unique identifiers per market. At the most basic level, the information was typically an email address, but often also included name, birth year, and gender.
- The unique identifiers typically represented about 5% of total adult market population and 9% of total cumulative broadcast audience. Those operating in smaller markets seemed slightly more successful than those in larger markets in achieving market penetration.
- All user data was collected in a value exchange. Users gave up their personal information for free or discounted concert tickets, news or weather alerts, or other prizes. A smaller amount was attributable to specialized content, most often related to national sports, favorite musical groups, local weather, or local crime news.
- The most common value exchange was for winning a prize in a contest. While contests generated the most contact information, it also wound up being the least valuable in terms of follow-up engagement. Most people enter a contest to win a prize and have no interest in continuing the relationship beyond that. But it's an entry point. Engaging contest entrants to join email newsletters or to gain access to other exclusive content helped some of these broadcasters develop deeper relationships with customers. "If you want to win free tickets to a Kenny Chesney concert, you're probably interested in our country music newsletter," a radio executive told us.

One of the more interesting findings was from a large broadcast company that dove into developing 1st-party data a decade ago. The company staffed up twice with two major initiatives during that period to develop first-party data across its publishing and broadcasting properties. But both times, it encountered difficulties proving ROI and dismantled those initiatives. "For first-party data to be valuable," a company executive told us, "you need to have a lot of it, a lot of observations on the same person. And you need a wide girth of data about different genres.... If all you have is (their interest in) local news, weather, or sports, there's very little you can ordain about someone that is commercially helpful."

Another effort by a smaller broadcaster, Mid-West Family of Companies, has experienced more success.

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Senior Broadcast Executive

Mid-West owns 41 radio stations in Michigan, Missouri, Illinois, Wisconsin, and Indiana. It began embracing first-party data initiatives three years ago and has perhaps the most developed effort among smaller broadcast companies. The company departed from its longtime management style of allowing each market to decide its own course and mandated the data-collection effort. "It's one of the few things in the group that is centralized," said Dave Doetsch, president. "In the past year, we've gone into more of a mandated role with this."

Mid-West has amassed more than a half-million email addresses via various content offerings and promotions. Open rates on email are in the 70% to 75% range, said Vice President of Programming Randy Hawke, who leads the effort. Moreover, he said, Mid-West has a "defined customer journey" for each new contact and is trying to reach beyond listeners. Four markets have launched products not specifically tied to their radio audiences. They include apps and email newsletters offering local news, obituaries, special offers, coupons, and event information. Hawke said the company has been able to develop audiences in Florida, Chicago, and Washington, D.C., based on initial promotions that start on their local radio stations.

"The thing that works well for radio is having influencers (announcers)," he said. "It goes to the core competencies of radio. They have known personalities and brands. "

The ability to use digital media to develop audiences beyond radio listeners and TV station viewers is not lost on TV and radio managers who understand digital media. Our survey of 54 managers showed that 67% have initiatives to reach beyond their traditional audiences, and an additional 15% are developing plans to do so.

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"The thing that works well for radio is having influencers. It goes to the core competencies of radio. They have known personalities and brands."

Randy Hawke, VP of Programming,
Mid-West Family of Companies

Conclusions & Recommendations

Concerns over how personal data is being used are driving governments to enact privacy laws, companies to scale back how they make money off that data, and the public to click the opt-out link more often. These seal the fate of 3rd-party cookies, as well as the fate of about $2 billion in annual revenue for broadcasters.

A wait-and-see strategy doesn't seem prudent given the fact that there is real money to be lost and real opportunity to be gained. The phase-out has been occurring for at least four years and now has an end date just two years away.

The problem is, the issue has been opaque and complicated. As with any complicated issue, there is as much fodder for naysayers to declare it's much ado about nothing as there is for fanatics to yell "fire." While there is no raging fire, there is a considerable smoke. No market manager would be pleased to see an annual revenue loss of between $735,163 and $1.1 million. Yet that's what it equates to today, with a 40% increase in loss within two years. There are lessons to be learned from the 20% of broadcasters who have devoted resources to studying the issue and finding solutions. They seem motivated less by the threat of loss and more by the new opportunity it presents. The focus inevitably draws on the chance to leverage their formidable broadcast reach to create more personalized relationships with heretofore anonymous listeners and viewers.

More than that, it presents an opportunity to reach altogether new audiences—those not listening to their radio stations or watching their TV stations.

For those who feel behind, we've developed a checklist based on the learnings of this research of how to approach that opportunity.

Educate internal stakeholders, secure buy-in, formalize a team. Having company executives and the management team understand the importance of 1st-party data is critical. Create a team to specifically discuss the issue and determine how to respond. The team should include representatives from the revenue, content, marketing, and technology sides of the business.

Accurately gauge the urgency and set a timeline for response. Overstating the problem can be as bad as understating it. Extended debates on the size of the potential loss or whether Google might delay the phase-out yet again ignore the fact that something is already happening and that opportunities are presenting themselves.

Start working on a comprehensive plan. The sooner a cohesive plan is put into place to amass 1st-party data, the sooner it can be leveraged. In addition, potentially more of it will be available to you when Chrome's deadline hits. Investing in a robust data management platform is the first step, with testing of acquisition tactics to follow. If possible, cross-functional (not just revenue) data specialists/scientists should be added to help stakeholders understand opportunities and effectiveness.

Start prepping site visitors and app users: Converting a casual, anonymous consumer to loyal one who will share personal information can be challenging. Remind consumers how much you value them and how their opt-in ensures that the product they now enjoy will continue into the future—and get better. Find ways to get them involved in the product as part of the value exchange for their consent.

Don't forget the ad buyers. How will local marketers spend their budgets when digital targeting options change? How will they value your 1st-party data in that new world? While the scale of your first party data may not be enough to compete today, its value may be greatly increased if 3rd-party options disappear. How many unique customers do you need to attract advertisers' attention, and what personal attributes will be most valuable?

The situation that broadcasters find themselves in today is an example of how challenging disruptive innovation can be for incumbent businesses. When faced with the threat of a disruptor, incumbent businesses often respond by cramming their existing business model into the new framework. Thus, broadcasters drove their mass audiences of listeners and viewers to the web and sold advertising "spot" in the form of banners and streaming video and audio commercials.

The deprecation of 3rd-party cookies presents a golden opportunity to broadcasters to break the mold. It delivers motivation to leverage their well-established, respected brands and their formidable reach to create a more personal and potentially more valuable relationship with their audiences—and for their advertisers.