



A wave of advertisers are leaving Google's YouTube. DADO RUVIC

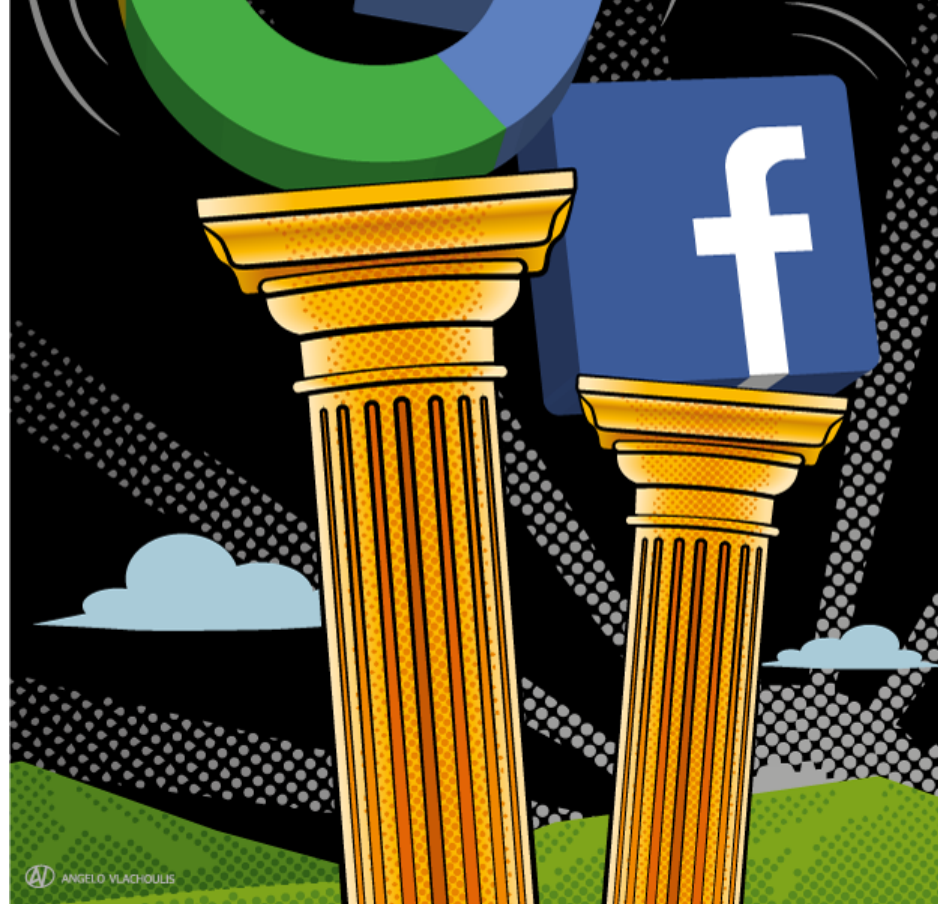
by [John McDuling](#) [Max Mason](#)

They are two of the most astonishing success stories in the history of capitalism.

In the space of a few years, Google and Facebook have amassed a collective market value of nearly \$US1 trillion (\$1.3 trillion), and created a global duopoly in digital advertising that looks unassailable.

But in 2017 the narrative surrounding these two internet behemoths and their disruption of the media business has abruptly shifted. Advertisers – and broader society for that matter – seem to be waking up to the realisation that their unstoppable rise has come with a cost.

The ecosystem they've helped create has led to cheap, intrusive (and at times, downright creepy) ads littering the internet. And in some cases, these ads are effectively being used to underwrite the economics of false and deeply distasteful content.



Angelo Vlachoulis

With a lack of transparency, no common standards over viewer metrics and a growing array of middlemen siphoning money away from brands and media owners, the online ad market they have helped create is a total mess.

"Craft or crap?" asked the man in charge of one of the world's biggest advertising budgets, Procter & Gamble's chief brand officer Marc Pritchard, in January, in [widely reported comments](#) that sent shockwaves through the industry. "Technology enables both and all too often, the outcome has been more crappy advertising accompanied by even crappier viewing experiences," he said.

## A tipping point

Since advertising's heyday, the era of *Mad Men* on Madison Avenue in the 1960s, brands have drawn on emotion – hope, fear, jealousy, nostalgia – to persuade customers to purchase their products.

But over the last decade and a half they themselves have been seduced by an irresistible pitch: the ability to put their ads in front of exactly who they want to reach, and cheaply, online.

## Alphabet\* and Facebook market cap (\$USb)





Now, the technology that has helped them achieve that appears to be backfiring. And although they may be forced yet again to turn to technology for the way out of this mess, through further improvement to algorithms or even creepier software that taps into your emotions, for now, advertisers are stomping their feet.

Over the past couple of weeks it has felt like a tipping point has been reached.

Brands in the US, UK and here in Australia have been withdrawing business from Google after their ads were being placed next to, or in front of, highly disturbing content. Specifically, YouTube videos uploaded by Nazi sympathisers and jihadists.

In the US, brands such as Starbucks, Walmart and Pepsi have pulled ads from YouTube. In Australia [Holden](#), [Telstra](#) and even the [federal government](#) have done the same.



Advertisers have been boycotting YouTube out of concerns ads could appear alongside inappropriate content. AP

Tensions over glitches like this, and the lack of transparency online in general, have been mounting for months. Last year, Facebook was embroiled in a scandal of a different kind when it admitted it [had overstated viewership metrics](#) (which are not audited by third parties) for video ads on its platform by up to 80 per cent.

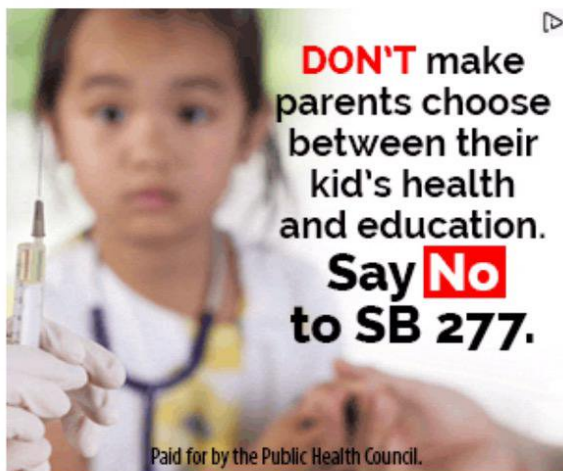
It must be said that to some degree the media firestorm over the Google and Facebook controversies is self-serving. Traditional publishers, including Fairfax

Let advertisers and investors are concerned.

"From one perspective, the mass boycott of Google – spanning businesses from many industries and countries around the world – illustrates just how powerful Google has become," says Andrew Macken, a portfolio manager for Montaka Global, which owns shares of Facebook. "In part, the boycott is probably an expression of frustration by customers that Google and Facebook really are the only two digital advertising games in town."

in multiple geographic theaters, and consistently uphold the highest standards required of the U.S. Armed Forces."

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The command said its operators are trained to operate in complex and fast-moving environments and it trusts them to conduct themselves appropriately. "All allegations of misconduct are taken seriously," the statement said, adding: "Substantiated findings are dealt with by military or law enforcement authorities "

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Google says it has commenced an extensive review of its policies and is taking steps to give brands greater control over where their ads appear. It says the videos flagged by its top clients represented 1/1000th per cent of the advertisers' total impressions.

"Of course, when we find that ads mistakenly ran against content that doesn't comply with our policies, we immediately remove those ads," Google's chief brand officer,

So how did we get to this point, and what can be done to fix it?

An estimated \$US181 billion was spent by brands around the world on digital advertising last year, according to Zenith, up 17 per cent from 2015. This year, digital ad spending globally will likely surpass advertising on TV.

But about two thirds of this spending – and all of the growth – is being captured by Facebook and Google. For everyone else, the digital ad pie is actually shrinking.

Up until now, the appeal for brands to advertise via Facebook or Google has been straightforward, and compelling.

These two behemoths have access to more eyeballs, and know more about you, than any traditional publisher ever could. This means they can sell more targeted ads than publishers and other internet players could ever hope to, relatively cheaply.

Facebook is used by nearly 2 billion people around the world each month. Over 1 billion of them log in each day on a mobile device. Most of these users wilfully hand over intimate details about themselves to the social media giant, which also happens to track everything you are doing on the internet.

This means if a marketer wants to reach 18 to 30-year-old English-speaking males who work in finance and have shown interest in buying a car, Facebook knows how to find them. It can insert ads into the timelines of users that fit that profile.

Google achieves a similar outcome – serving ads to hyper-targeted audiences cheaply – slightly differently. It knows what you search for and quite likely where you live and work. Ads against specific searches are a highly lucrative, because they often come just before a purchase.

But Google has also built out a vast display advertising network – publishers hand over unused inventory (standardised slots on their pages) to the search giant. Through its ad exchange, Google can take orders from marketers based on targeted parameters and fill them on thousands of sites across the internet. In a Faustian pact, revenue-challenged publishers can squeeze a few extra dollars out of their remnant inventory.

## Space Jam

Basically, once a upon a time brands bought specific space on specific properties (that could claim to draw specific audiences). Now they buy targeted audiences, and reach them in a variety of destinations scattered across the internet.

And it is leading to perverse outcomes.

It's why ads for the Australian Defence Force [can appear on Breitbart.com](#), the contentious far-right website. It's why ads for anti-vaccination websites can appear in *New York Times* articles about vaccinations.

And it's why ads for fake news sites [can appear next to a post](#) from Mark Zuckerberg promising to clamp down on fake news, or why ads for big brands can appear on

and because it's more measurable it must be better," says Peter Tonagh, who as Foxtel CEO runs one of Australia's biggest media companies, which is also a big advertiser itself.

"One of the things people have lost touch with the last few years is the fact that really good marketing basically combines a good piece of creative in a really contextual environment with a great audience," says Tonagh. "I think that's what's really coming to bear now ... context is important."

For its part Facebook says it is moving to ensure advertisers have control over where their ads appear.

"Advertisements on Facebook are not targeted to appear next to certain videos or content, they appear in people's News Feed and everybody's News Feed is different," a spokesperson says. "The ads you see are based on your interests, not the content you see above and below those ads."

## **Context is everything**

Context-free advertising may be less effective than previously thought, and potentially damaging to brands. But it does have at least one advantage – it's cheap.

"The fundamental reason we're in such a flux is economics. Low-cost advertising and content environments are cheap for a reason – they carry higher risk and don't typically have the safeguards or the eyes of professional content people who are ultimately held accountable," Multi-Channel Network chief executive Anthony Fitzgerald says.

"Brand owners will ultimately have to make a choice – either super-cheap advertising which carries more perpetual risk to brands, governance and reputation or back premium content environments where the risk is lower and control is more tangible. But it's called premium for a reason. You get what you pay for."

Facebook and Google can argue, with justification, that their ads perform better than other media. Because they are so targeted or come after a specific search, they are often viewed just before a purchase or some other measurable outcome (downloading and installing app, clicking through to a homepage, signing up for a newsletter).

Yet media owners (unsurprisingly) dispute this.

"The truth is that loads of other things go into driving a conversion (TV ads, show room demo, brand ads on websites) but the last click gets attributed with all the value," says one senior industry executive.

"It's bulls---, but clients either don't understand it or don't want to because this seems easier and safer."

Marketing insights firm Forethought ran a study during the lead up to the US presidential election. It wanted to see how political advertising put people in different emotion states.

It showed 3600 people over 18 one of 12 political advertisements. The political ads.



The results were alarming for marketers. On negative ads, Forethought found a 34 per cent drop in brand reputation and a 26 per cent decline in purchase intent.

"The economic implications of advertising when you can't control your neighbours ... is substantial," Forethought principal consultant Michael Sankey says.

"It's a big deal ... there's a lot of extreme content and inappropriate content ... what the Forethought study showed is the implications extends beyond extreme or inappropriate content to all media, to any content that motivates a negative emotion."

Further questioning the notion that context doesn't matter was a recent *New York Times* report on Chase bank. It [cut the number of websites](#) its ads were being distributed across from 400,000 to 5000 and saw no difference in results.

## **A market solution?**

The most obvious way out of this mess is for advertisers to take more responsibility for how they allocate their money.

"Brand owners who do not exercise reasonable care over the environment they pay for their ads to be in are hostage to fortune," says the Australian Association of National Advertisers Sunita Gloster.

"Such behaviour is simply an anathema to sound brand management and good corporate governance."

Facebook and Google can't be blamed for everything. Media agencies, themselves facing margin pressure as advertisers scaled back budgets, have moved to plug revenue holes through other means. For example some are engaging in a form of advertising arbitrage, pooling together low-cost inventory from online publishers and Facebook and Google and selling it back to clients at a higher cost.

"Currently many marketers are paying for digital advertising in environments lacking in control measures, at prices which include significant undisclosed margins taken by their agency and partner suppliers across the digital supply chain," says Stephen Wright, director of independent agency Programmatic Media.

It's not just the agencies involved in clipping the ticket. Other middlemen include ad-tech participants operating such things as blind trading exchanges, data segmentation and re-targeting operators.

According to research house Ebiquity, just 40¢ in each dollar spent by Australian advertisers on digital actually reaches media owners.

But there are signs brands are beginning to ask questions. According to closely watched Standard Media Index data, media agency spend on digital in Australia slipped 1.7 per cent in February, compared with the same time last year. It marked the first time digital spend has fallen, year on year, since April 2009.

## **Technology fix**

Even though technology seems at the root of the problems in the online ad market, no

Mark Truss, who worked on the Forethought research and is J. Walter Thompson global director of brand intelligence and a professor at Columbia University, said it's difficult for brands to know where to move next until ad tech improves.

"Brand owners are a bit at the mercy of the media tools we have today," he said. "Those tools are not as sophisticated as we need them to be, they're moving in that direction, but they're not there yet."

Truss says the problem is programmatic ignores emotion and emotion plays a significant role in how well advertising works.

"The problem is how do we advance programmatic tools to include variables of content and more specifically, the emotional aspects of that content.

"If there was a major effort under way, instead of scoring content based on which eyeballs are going there, we score it on the emotional relevance ... then I think we could build it."

Marrying technology and emotion would be no small feat. But if Facebook and Google can master it, maybe they won't have strangled the internet, and the ad market, after all.