

STATE OF THE INDUSTRY REPORT

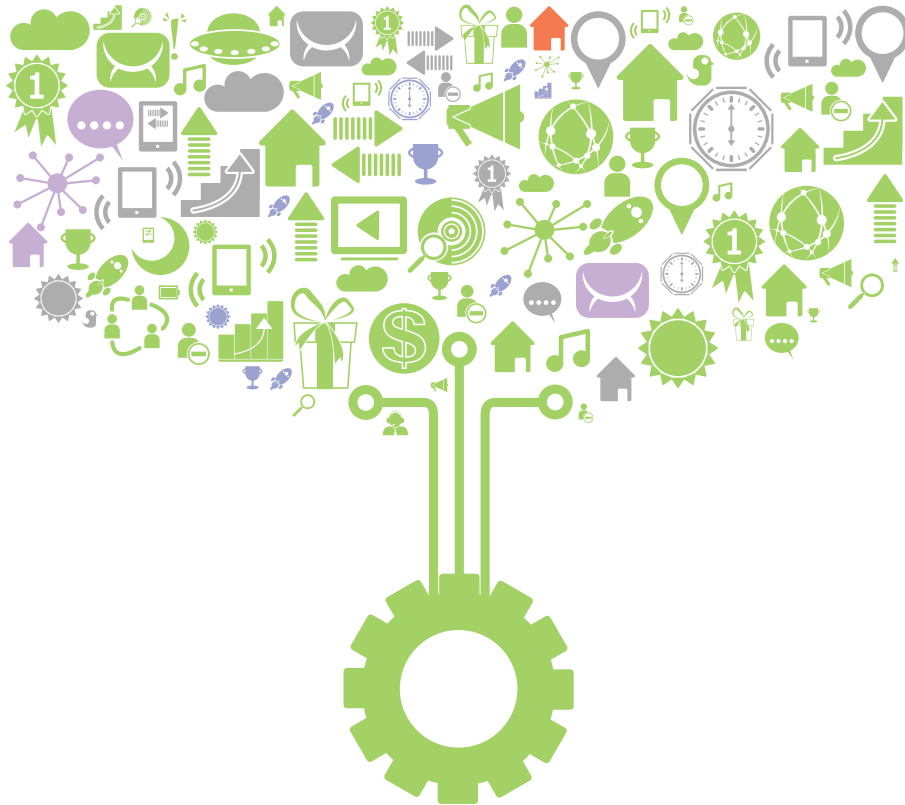
Where the Marketing Industry Stands
on Data, Identity and Privacy

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I. Introduction



The fears and concerns over privacy issues, particularly around data collection, have hit peak levels. With daily reports from media – from mainstream outlets to industry press – about Wikileaks or documents outlining the U.S. government’s surveillance tactics, consumers’ eyes are being opened regarding public and private sector data collection and privacy practices.

Fortunately, with the public scrutiny about data practices — we are in the Big Data era, after all — brands, agencies and publishers have realized it’s in their best interest to be transparent about what kinds of data they’re collecting, how they’re collecting data, and why they’re collecting it.

Results from this study reveal that the practices and attitudes of marketers and publishers are aligning with consumers’ privacy concerns. For all the negative connotations around data collection, the reality is much less scary.

Below are some key findings from the study, followed by a more in-depth discussion.

- The marketing industry still struggles to link data to create individual customer profiles. Half of the respondents said they aren’t able to do it.
- Complexity seems to be the overarching challenge when it comes to data collection. 25 percent said that legal issues are a challenge; 29 percent said process is a main challenge; 19 percent responded having no systems in place was a hurdle.
- Traditional modes of data collection are still dominant. 71 percent told us they collect information based on phone numbers, home addresses and IP addresses; 76 percent reported collecting demographic profile data. Interestingly, only 47 percent are collecting psychographic data.
- Marketers and publishers believe, overwhelmingly, that consumers should know what data is being collected. Approximately 96 percent said that consumers should have complete control and be fully informed about a company’s data collection policy and have the ability to opt-out.
- Additionally, 89 percent said that a company is either responsible or completely responsible for respecting and protecting consumers’ privacy.
- Some industry executives (21 percent) believe government constrains companies too much when it comes to collecting data. There’s also an education issue; 23 percent said they’re not familiar with the current legal framework.

II. Data Collection Practices

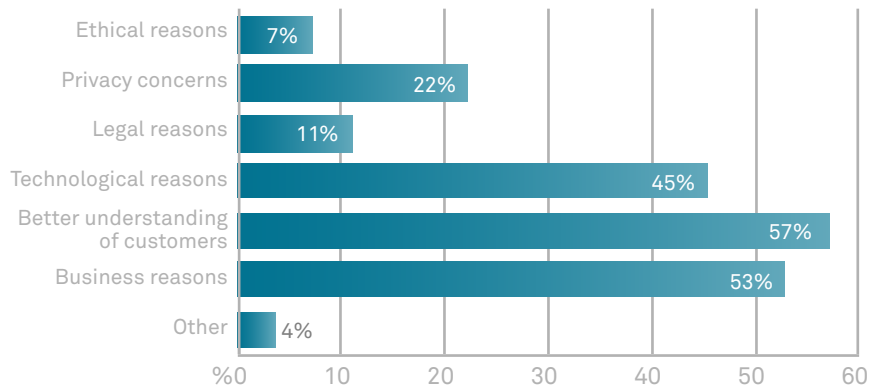
Data collecting is now the norm; 76 percent of respondents said they're gathering data on both current and potential customers. And with 77 percent reporting that their data collection has increased over the last year, the practice is clearly on the rise.

There are two main reasons why this is the case: Data collection has improved and businesses want to understand their customers better. And it appears that data collection is not an inconsequential piece of a company's budget: 72 percent said they allocate up to 20 percent of their annual budgets to data collection and management efforts.

But businesses are under pressure to align with the public's fears of data collection.

"The discussion and press attention around privacy has been great," said Jason Kint, president of the Online Publisher's Association. "Marketers pay more attention to what they're asking for. In a world in which we have more data and automation, trust and transparency become paramount. That relationship between consumers/marketer/publisher is the most important element to that."

Reasons Why The Changes Occurred

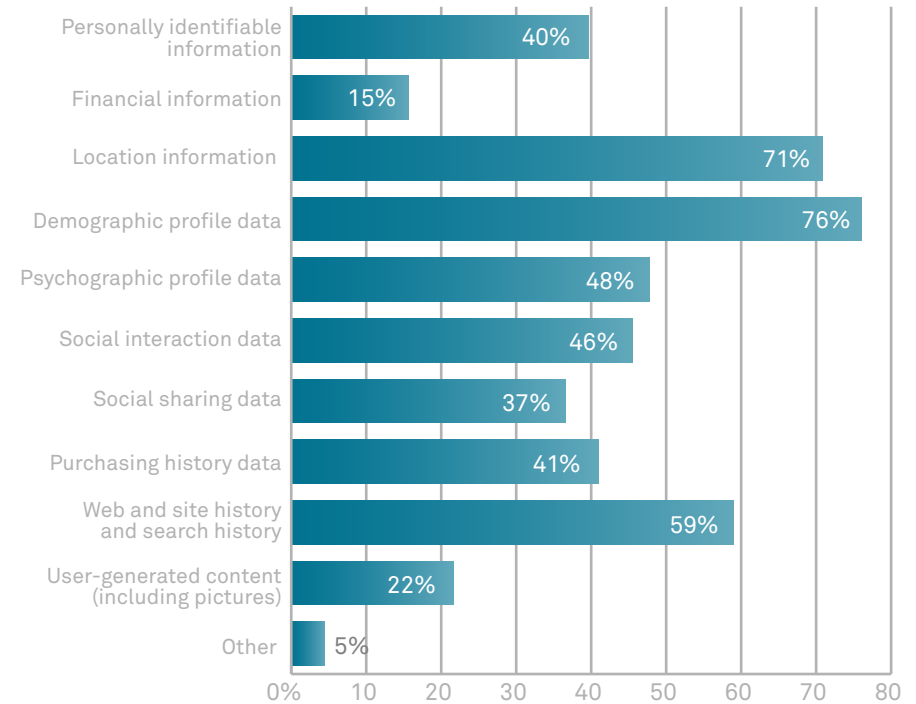


According to a 2013 Computer & Communications Industry Association study, 54 percent of consumers are worried that companies will track their browsing history for advertising purposes, yet many said they won't change their behaviors.

There's nothing new about brands and publishers collecting data about consumers. What is new, though, is the variety of data types, along with the sheer quantity being collected. All sorts of data — location data information, demographic data, psychographic data, social interaction data — are making their way into brand, publisher, marketer and third party databases.

For all these advancements, two traditional types of data — information from phone number and home address, and demographic profile data — are still the bread and butter of most companies. Website and search history come in third.

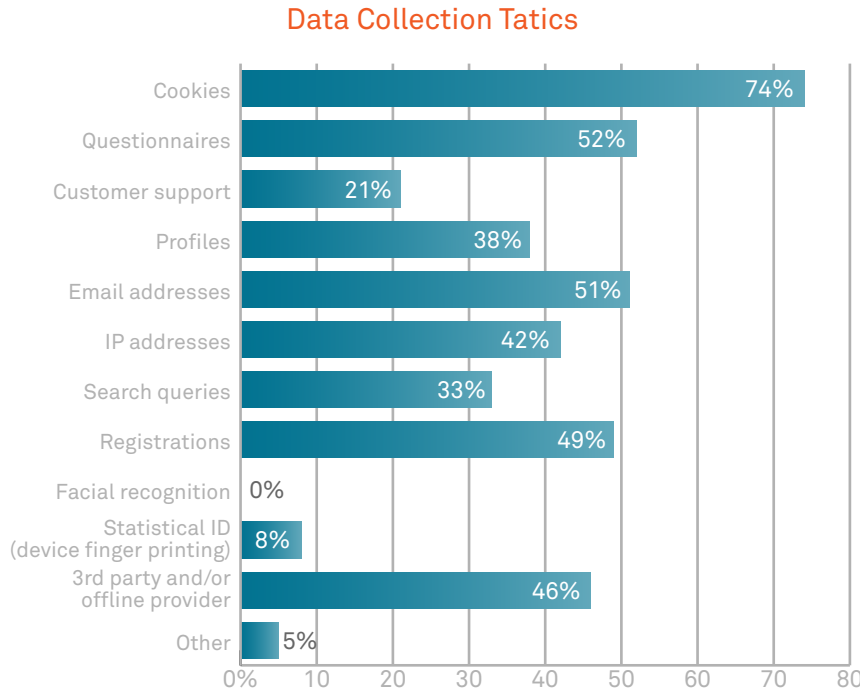
Types Of Data Being Collected



The use of tried-and-true data types makes sense even if they don't take advantage of the full potential of data targeting, as most marketers and publishers want to serve relevant ads and measure their impact. Indeed, 75 percent say serving relevant ads to the right audience was a main reason why they collect data; 74 percent say measuring the impact of their marketing campaigns was also a main reason.

Not all data is created equal. Social data, for example, is still a bit nebulous. Companies are unsure about how to handle it effectively. And based on results, it seems that collecting data to predict purchase behavior is not a major focus; only 39 percent of respondents indicated this as a reason to collect data.

When it comes to data collection methods, cookies still reign supreme. But brands and publishers are finding ways to get consumers to volunteer their information through questionnaires and registrations, another trend that shows how marketers are responding to the wider discourse on privacy.

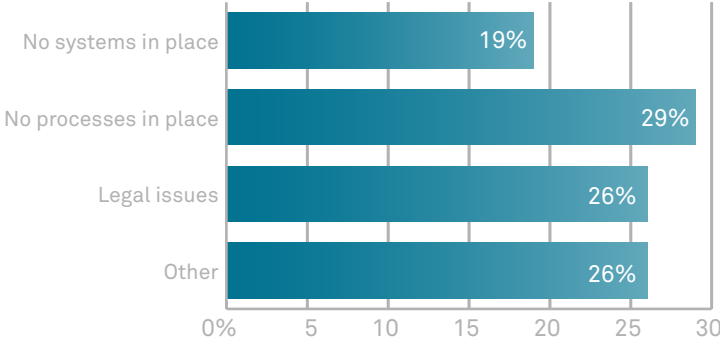


The Complexity Challenge

But with more actors and more tactics involved in data collection, interesting sets of challenges arise. Complexity – whether in the technology, legal structure or internal process – seems to be the overarching challenge. Indeed, the industry is torn over which area is home to the greatest complications. Case in point: the open-ended responses to the question:

- “What is the main challenge in data collection?”
- “Technology limitations.”
- “Internal resources.”
- “Need better systems and practices.”

Main Challenge In Data Collection



Ben Kunz, VP of strategic planning at Mediassociates, argued there's little complexity in the act of collecting data. In fact, he “would suggest it's quite simple.” However, he believes the marketing challenge is trying to line up all the pieces so that marketers can get the results they want without overstepping boundaries.

“On the consumer side, it's kind of a tragedy of the commons,” Kunz said. “If we retarget everyone, stalk them online and freak them out, eventually US consumers make other waves and there may be even more pushback against using data. So it's a complicated ecosystem. I guess the solution is to give the consumers choice and allow them ways to opt out and to be explicit in what you're doing with their information.”

Other challenges: For the first time, consumers are getting a look at how the advertising industry works. And that visibility is creating a newfound sense of discomfort. That's a hurdle.

"The analogy I give people," Kunz said, "is that you get a Pottery Barn catalog in the mail because the woman in the household bought something two months ago at Home Goods and she doesn't freak out thinking that her behavior in the retail store was sold to Experian that went into a database that turned into a mailing list that allowed someone to send her a catalog.

"But if someone goes and buys shoes at an online outlet and two hours later they boot up Facebook and see an ad for the same brand of shoes cross selling them, they freak out," Kunz continued. "And it's very visible that the data connections have been made."

Somewhat paradoxically, in the first example, the data connection is made at the PII level, whereas in the second example, no PII is involved (i.e., we don't know who, exactly, the person is that's browsing for shoes). Apparently, both the proximity in time and media makes a difference.

Who manages the data?

According to the survey, 61 percent of respondents said they manage data in-house, while 32 percent reported using a DMP. Additionally, more than 80 percent said that data siloing is an obstacle. The data supports Kint's thoughts on first-party data: there's a massive divide between first and third party data collection in use.

Overall, he said, there's a "comfort level and transparency piece around first party data," which is the data that is provided to a publisher or marketer based on a direct relationship. "Everyone understands that relationship is based on trust," Kint added. "A consumer can choose your website, so you need to respect that relationship."

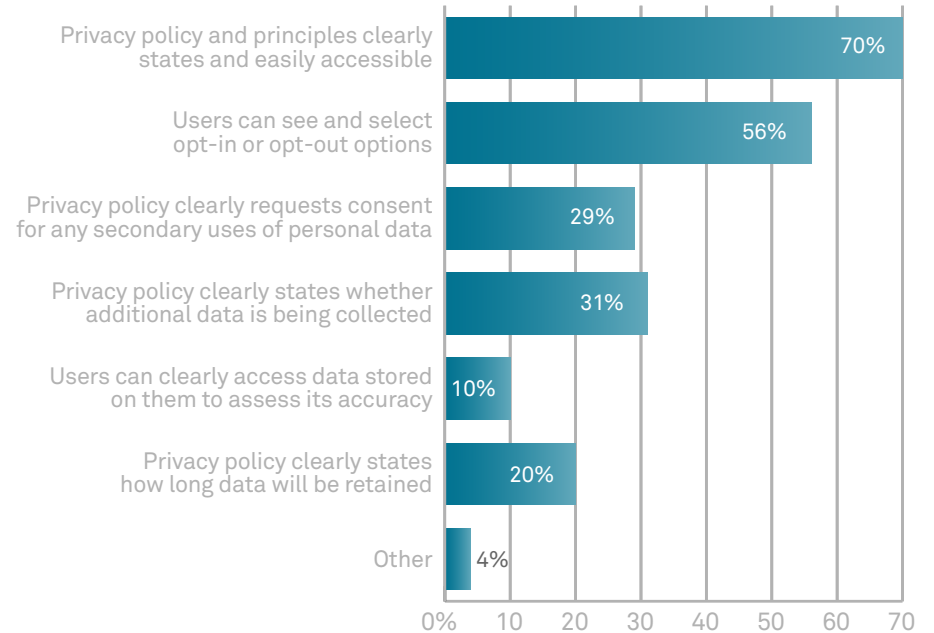
Brands and publishers managing their data allows for tighter controls of what happens with that data. Since a lot of data is voluntary, users might have more trust in giving data directly to brands and publishers. But when

advertisers use third party data – which most (79%) do – the absence of a direct relationship between the consumer and the third party data collector can create concern.

The hurdle comes with the third party data collection use, where there's no relationship between consumer and the technology or the third party. Indeed, 79 percent reported to using third party data.

Brands and publishers are slowly making efforts to provide some type of transparency around third party data collection policies. About 70 percent are making their privacy policies and principles accessible to consumers; almost a third say they clearly state whether additional data is being collected other than what the user knowingly provides. Consider Europe's privacy laws: Publishers are required to get users' consent before dropping cookies on devices.

Efforts to Make Third Party Data Collection Transparent



III. Results of data collection

Marketers and publishers are relatively satisfied with the quality of data they collect. But, 15 percent reported they weren't very satisfied. This leaves a lot of room for improvement, especially in terms of the types of data to be collected.

Of course, better data quality gives brands and publishers better results. And according to the survey, roughly 99 percent of our respondents said data quality is important to them. Brands and publishers believe, rightly, that a better understanding of individuals enables better service, better product and a better overall user experience. Some thoughts from respondents:

"Why put forth the effort and expense if it's not quality, actionable data?"

"We don't need data and dashboards to say we have them. We need accurate data to discover nuggets that provide actionable opportunities."

"Effective messaging is only as good as the data used in order to deliver to the appropriate target; if not done properly it's a waste."

But to get better data quality, there needs to be better data processes, especially since marketers, particularly, are spending a good amount of money on data collection.

Mediassociates' Ben Kunz sees this as a double-edged sword: "It's really interesting that as an agency, like many agencies, we often try to figure out a way to make money off of data, and very few people are willing to pay for it. They will pay for better results."

He also said that as valuable as data is, it can be seen as an industry loss leader.

"It's difficult to get a client to pay directly for that type of service," Kunz said. "It's almost like direct mail—if you're doing a direct mail campaign and you try to sell a client a list at a dollar per name they'll balk. But if they run the direct mail campaign and their cost per lead falls from \$50 to \$10, they'll throw \$500,000 more at that campaign."

"If you can use data to make the advertising work better and drive lower cost per leads, lower cost per sale, or higher video views or whatever the goal is, clients will throw more money at it," he added.

Luckily, according to Kint, the cost of data collection is orders of magnitude cheaper than in the past. In an offline world, it costs money to put something like a mailer into someone's mailbox. Now, you can target an ad to them, and sometimes you don't have to pay for it.

"If you go to some websites, there'll literally be more than 100 tags and cookies on a single webpage collecting data for third parties," he said. "The cost of collecting that data is almost insignificant now."

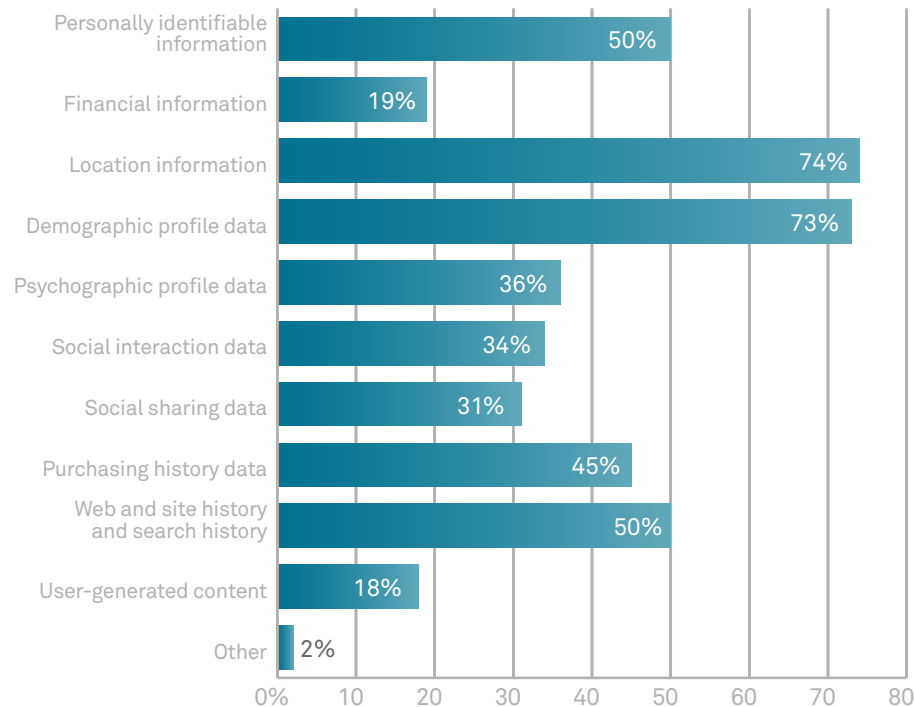


Linking data to create individual customer profiles

The biggest opportunity, it appears, is being able to link data to create individual customer profiles. This allows marketers and publishers to have a fuller view of customers and potential customers. Delivering relevant messages across multiple devices and channels can be a competitive advantage for marketers.

But according to the survey, half can't do it, and of the 50 percent who can successfully link data to customer profiles, the leading types of data sources incorporated into them are, again, fairly traditional data points: location information, like phone numbers and home addresses, and demographics. Surprisingly, only 35 percent are incorporating psychographic profile data (likes, values, attitudes) into customer profiles. There's room here for companies to be able to build more complete profiles based on data.

Data Sources Incorporated Into The Profiles



A little more than 90 percent of the respondents who are able to link data to customer profiles also reported that they're able to successfully attribute engagements to individual customer profiles. But there is still some room for improvement here, as 38 percent said they can only do this moderately successfully.

The biggest room for improvement, however, comes with being able to unify and reuse individual customer profiles across different channels; it's more difficult to do, as roughly 25 percent of respondents said they can't successfully pull this off. Cross-channel targeting is a challenge as marketers aren't exactly sure if the person who visited a site on desktop is the same person who's visiting it on the tablet. This is due to mobile's inability to drop cookies. Since cookies are still the dominant mode of collecting data, this is a challenge.

Linking data to build personal profiles is a competitive advantage; as stated above, only half of the respondents are able to do this. When it comes to the importance of collecting data for a company's business objectives, 98 percent said that it was important. Such an overwhelming response is not too surprising.

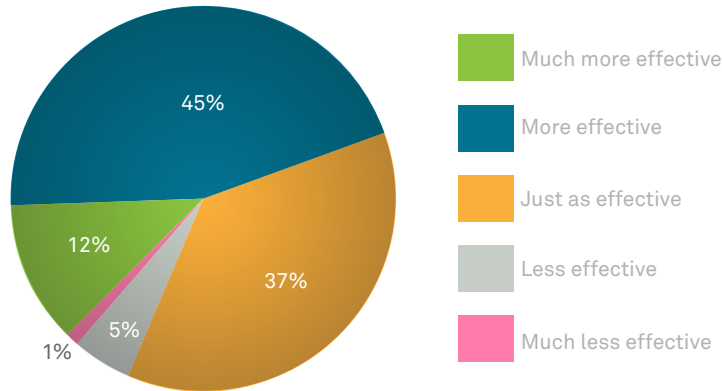
When asked "Why?" Most of the respondents mentioned that better user experiences, informed by data collected on users, leads to better business. "More knowledge means the ability to better both our product and the user experience," said one respondent. Another said, "Knowing more about audiences and how they behave can optimize tactics efficiently and uncover new opportunities."

From the publisher side: "We need to provide good content for consumers and part of that is providing good ad experiences which enhance performance for the advertisers."

But while collecting data is important to a company's business objectives, many are still trying to understand just how effective their data collection is. According to the survey, 35 percent of respondents said data collection was only moderately effective in meeting their business needs; 13 percent said

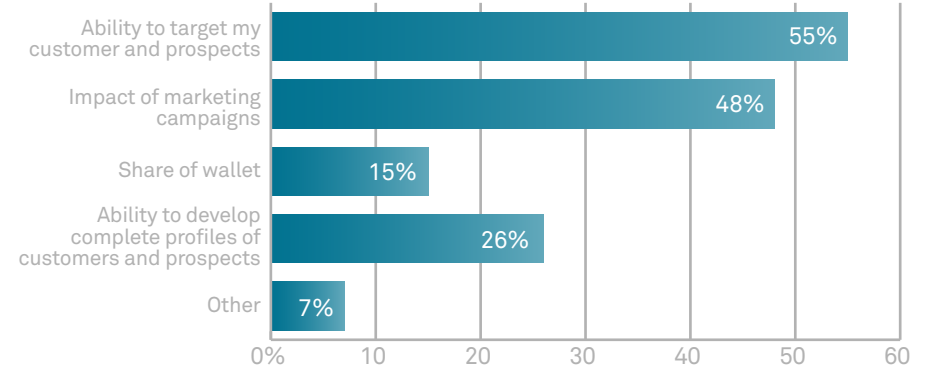
it wasn't very effective. While this isn't such a sunny outlook for the current state of data collection, it's important to note that 94 percent said its effectiveness of these practices is just as good, if not better than a year ago.

How Effective Are Your Data Collection Efforts Relative To One Year Ago?

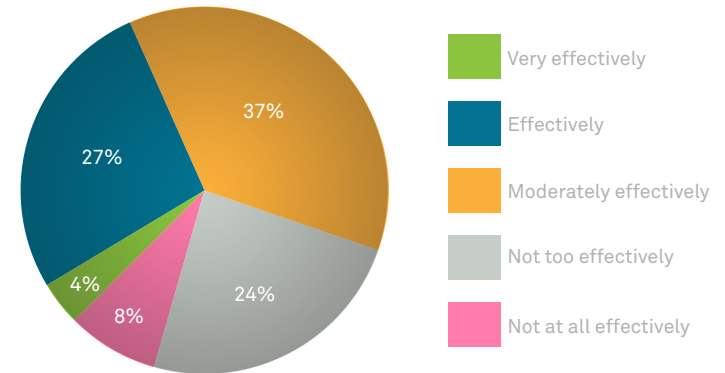


What has improved? Fifty five percent said the ability to target customers has improved, while 48 percent said the impact of marketing campaigns has improved. However, when matched up against the overall effectiveness of data collection in meeting business objectives, this hasn't truly changed the game. While it may be easier, collecting the right data to move the business needle is still a complex task. In fact, roughly a third of survey respondents indicated that they have found difficulty in being able to predict purchasing behavior of their customers.

What Has Improved With Data Collection In The Past Year?



How Effectively Are You Able To Predict Purchasing Behavior Of Your Customers?



IV. Issues of data collection

Societal issues run deep when it comes to data collection and forming pictures of consumers' identities. There's the creep factor (do people really want companies to know a lot about them?) and the control factor (who should have the final say in what and how data is collected?).

So far, it seems, the media industry has learned from previous privacy intrusions. Historically, marketers have encroached upon a new system, reached in too far and polluted it. Think of telemarketing: consumers got fed up with constant dinner-time interruptions from marketers. The result? Do Not Call list. Think of email spam filters. Think of radio: Clear Channel, one of the largest radio networks in the United States started adding more and more advertising minutes per hour. Ratings plummeted. Now there's a "less is more" campaign and they dialed back the radio minutes per hour of ads. The industry typically does the right thing...when enough people scream. With data collection, the industry may be getting ahead of the curve this time.

Based on the survey, it appears that companies are paying attention to broader public discourse. They're adjusting their business practices on collecting consumer information. Indeed, roughly 80 percent have had their data collection process affected by the recent discussions of privacy and data. And companies are employing tactics to keep information safe.

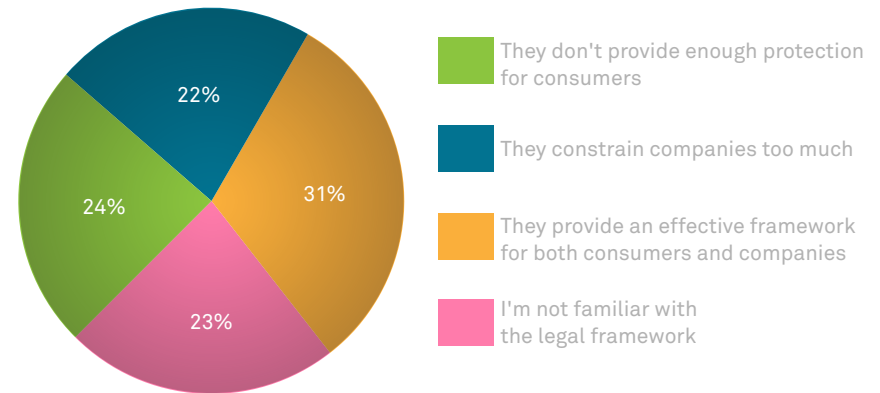
For example, most (57 percent) are partnering with third parties to ensure data protection and many (48 percent) are implementing new systems and process to protect customer and prospective customer data.

Additionally, companies have a measured attitude towards how much control consumers should have over how much of their personal data is collected; 63 percent said that consumers should be fully informed on what data is being collected and provided and have the ability to opt out. Companies believe that consumers should be informed about data collection and have the ability to control how that data is used (as opposed to what data is collected).

Attitudes on laws and governmental policies

Just like the fragmentation over data collection and privacy in the political arena, brands and publishers have mixed feelings about the laws and governmental policies covering data collection and privacy. This is evidence that while the discourse has affected business practices, it hasn't swayed everyone's personal beliefs. Many industry executives (21 percent), however, still believe government constrains companies too much when it comes to collecting data. There's still an education issue; 23 percent say they're not familiar with the current legal framework.

How Do You Feel About Laws And Government Policies Covering Data Collection And Privacy?



On top of that, 76 percent said they believe the legal and policy environment in regard to data collection and privacy will get stricter over the next two years. Marketers and publishers in the United States are keeping an eye on how Europe has broached privacy concerns. Should the U.S. enact laws that make data collection stricter, questions emerge: How will this affect investments into data companies? Will people invest in data collecting software if policies get tighter? Will marketers find other, perhaps more nefarious ways, to get better information on their consumers?

Attitudes on protecting consumer information

Brands and publishers appear to be trying to own up to their responsibility of protecting consumer information. Roughly 90 percent reported that a company should be either responsible or completely responsible in respecting and protecting consumers' privacy. This isn't a situation where the stance of a company is "consumers know what they are getting into" is taken.

On the publisher side, the OPA's Jason Kint agreed that there is a responsibility. The challenge, he said, is when dealing with third parties.

"There's improvement there that comes with tag management services, and good actors who are policing," he said. "A website can have a good actor they're working with and suddenly a bunch of bad actors are being ushered in and somehow a third party comes to collect data."

This is very difficult to police, but ultimately the responsibility falls back on the publisher, marketers and consumers, he offered. Part of that responsibility is met when brands are more transparent about third party data collection policies. According to the survey, most (70 percent) say that their use of third party data collection is guided by privacy policy and principles clearly stated and easily accessible.

"It's a matter of respect," said Becky Burr, Chief Privacy Officer for Neustar and a founding member of the board of directors of the International Association of Privacy Professionals. Burr adds, "It's a fundamental shift of how companies operate their businesses, create and build products and services with privacy by design in mind. Privacy by design is a concept which essentially puts privacy and security at the core of everything to ensure the protection of consumer information."

"We all have to be responsible to an extent," Kint said. "Marketers need to be diligent about where their agencies are spending their money and where their brand is surfacing, especially around automation; and the publishers need to know who they're doing business with and making tough choices there that at times might be challenging in the short term, but long term right for the marketplace."

Mediassociates's Ben Kunz, however, said that it's not on the brand to protect consumer privacy. He believes it's generally already protected.

"People have a misconception," Kunz said. "I can't peer through their Macbook camera and see who you are, usually, and I think the brand's responsibility is to provide a value exchange, where the messaging and the offers and the products and services you're providing and the things you're advertising are meaningful enough that a consumer may be a) not offended that you're targeting them on the front end and b) more willing to give you more information, where it becomes a beneficial relationship."

One way to look at this issue is through a kind of social contract. Marketers are learning that digital is an intensely personal medium: consumers do all sorts of things online, from trading stocks to visiting dating sites, that they don't want to share with everyone. This means being extra careful when trying to create user profiles.

"And when you suddenly pop in there, and say "HEY HERE I AM!," you're intruding on a very private moment, and I think that's a real reason why consumers freak out about digital data when it's really the same game that's been going on since American Express and direct marketing in the 1950's," Kunz said. "So maybe the onus on marketers is to be a little more sensitive in how they do it."



V. Conclusion

The industry press clouds reality. By focusing on the new and shiny, it can often cultivate a perception that everyone is participating in bad behavior. But the reality is that the traditional, tried-and-true tactics of data collection are still the norm.

The industry knows it has to protect consumer information. It's a business imperative. Yes, there are bad actors there. But it's up to the industry to police misbehavior. The market, however, will reward the good behavior.

As the industry continues to move forward with data collection and linking data to creating individual consumer profiles, the industry will need to keep in the mind the following:

- Collect and share data more safely
- Protect consumers' privacy
- Develop a more transparent value exchange

The state of the industry, in terms of data collection and linking to personal profiles, isn't as quite advanced as the media makes it out to be. But there's opportunity, when done with the utmost care, to link data to consumer profiles.

VI. Methodology

A sample of 301 digital media and marketing professionals participated in this study through a combination of convenience and snowball sampling. Of these, 10 percent identified as advertisers, 50 percent as agencies, 22 percent as publisher. The remaining 17 percent (8 percent ad platform; 9 percent “other”) were directed to the last section of the survey on questions of data collecting issues.

VII. About Us:

Neustar

We help marketers promote their businesses and IT and security professionals protect them. As an innovator in real-time technologies, we have the expertise to drive high-volume and high value decision-making. Whether you're in media and advertising, communications or financial services, retail, you name it, we're here to help you take fast, informed action—whether it's choosing the best offer to make to a new customer, or recognizing and instantly mitigating a DDoS attack on your Website.

Digiday

Digiday is a media company and community for professionals who work in the digital media, marketing and advertising industry. Our mission is to connect the industry with insightful analysis and perspective, as well as each other. We provide key insights and information through our online publications and conferences that cover the changes, trends — and why they matter. The focus is on quality, not quantity, and honesty instead of spin.



About Neustar

Neustar, Inc., (NYSE: NSR) is a trusted, neutral provider of real-time information and analysis to the Internet, telecommunications, information services, financial services, retail, media and advertising sectors. Neustar applies its advanced, secure technologies in location, identification, and evaluation to help its customers promote and protect their businesses. More information is available at www.neustar.biz.