# In the face of Google, Facebook, and Amazon, the open internet needs its own partnership-driven megaplatform

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# Ovum view

## Summary

Google, Facebook, and increasingly, Amazon (collectively "GFA") and their walled gardens continue to dominate digital advertising, exerting increasing (but unwanted) control over both digital publishers and advertisers. But consumers still spend much of their digital time outside these walled gardens on the open internet, meaning that significant opportunities remain for ad-based monetization without involving the digital giants. But to effectively compete, players on the open internet need to match GFA in what has been crucial to their success: scale, integration, addressability, and attribution. Achieving this will require teamwork from players across the advertising value chain from tech vendors to publishers.

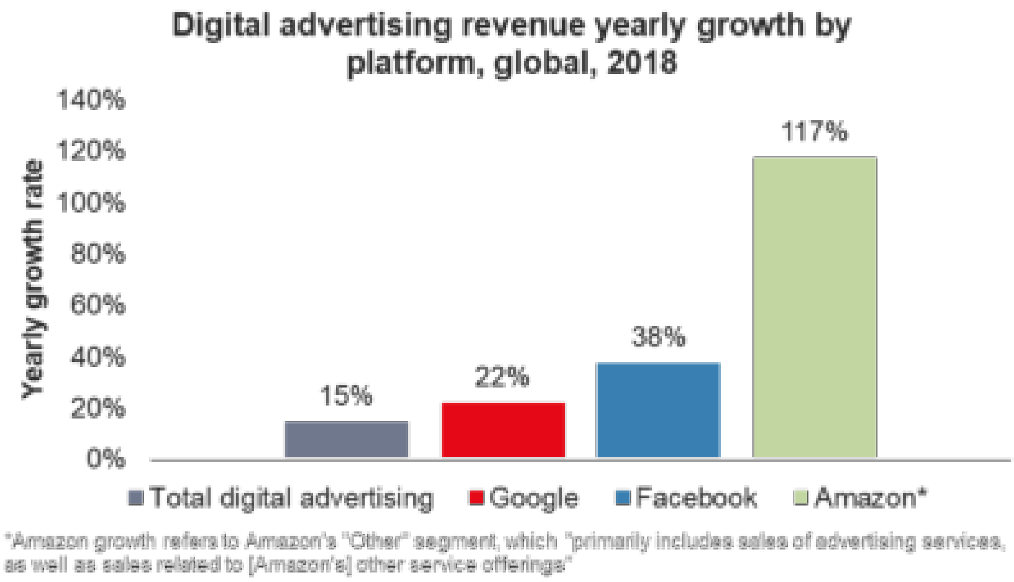
Currently, very few challengers can offer this potent mix, but one company looking to do so is French ad tech firm Criteo, which is setting its sights on becoming "the leading advertising platform for the open Internet." So far, this has involved repositioning and expanding its offerings, investing in technology, prioritizing retail-focused offerings, and – most importantly – fostering partnerships with players across the advertising and technology, media, and telecoms (TMT) ecosystem.

## The open internet is increasingly dominated by tech giants

The open internet remains crucial to the digital media sector and digital consumer experience and is home to a vast number of publishers, platforms, and technology vendors. However, digital advertising (a cornerstone of internet monetization) is increasingly being dominated by a small number of platforms operating their own closed ecosystems (or "walled gardens"), namely Google, Facebook, and increasingly, Amazon. While Amazon's "Other" revenue (which mainly comprises advertising but also includes other revenue) stood at just over $10bn in 2018 (still a small fraction of Google's and Facebook's respective ad revenue of $116bn and $55bn) this represented year-on-year (YoY) growth of 117%, well above that enjoyed by the overall digital ad market and the other tech giants (Figure 1).

**Figure 1: Google, Facebook, and Amazon all enjoyed advertising revenue growth above that of the total digital advertising market in 2018**




Source: Ovum, company reports

This growth is putting an increasing amount of power into the hands of the three companies. Furthermore, conflicts of interest (i.e., being both media owners and ad tech providers) and a lack of transparency and control of data within Google's and Facebook's walled gardens remain growing concerns for advertisers and agencies. And while some of the ad revenue flowing through Google's, Facebook's, and Amazon's advertising platforms will filter through to publishers as traffic acquisition costs (TACs), relying on this means that publishers' fates are threatened by the whims of Google and its contemporaries. Indeed, small changes in the companies' algorithms have already proven disastrous for some smaller publishers. As a result, relatively small traditional media companies are at risk of being squeezed out of not just the digital advertising market but the broader digital media sector too.

Meanwhile, Amazon's ability to drive direct sales and attribution for advertisers, both on and off its own retail and media platforms, has been key to its growing presence in digital advertising. And with Google and Facebook responding to Amazon's entry to the market with their own commerce-led ad offerings and new platform features, online retailers' already thin margins will be put under even greater pressure.

More, predominantly online, retailers are starting to follow Amazon's lead in expanding further into the digital media and entertainment space in a bid to bolster profitability. For most, this means implementing "sponsored product" ads on their online stores and apps. However, bigger players such as Walmart are launching their own ad-supported media apps and services, which utilize their shopper data to target consumers with directly shoppable display and video ads. At the same time, the need to integrate commerce with media and increase the efficiency of ads in driving online and offline purchases in a measurable and attributable manner – both of which are priorities for GFA – is growing in importance for media companies and ad tech players.

# The open internet will fight back to compete with GFA on their own terms

Maintaining and protecting an open advertising ecosystem that can compete with the tech giants' walled gardens will only grow in importance for players across the open internet. While Ovum expects regulatory scrutiny over the tech giants' dominance of digital advertising to grow, their hands look set to strengthen in the short term. Movements away from third-party cookie-based tracking will only increase the value of the first-party data generated, contained, and used to target ads within their (growing) walled gardens. Plus, investments in artificial intelligence (AI) and machine learning (ML) will make their ad platforms more automated and easier to use for advertisers. This, coupled with the scale of their audiences, will continue to appeal to efficiency-focused advertisers.

To compete, players on the open internet will look to build scale and even offer their own self-serve programmatic ad platforms. Some of the largest converged media companies (such as AT&T) will aim to compete with the tech giants in terms of their reach and ad technology through their own end-to-end ad platforms, covering both traditional and digital media. However, for most players with smaller budgets not able to invest in building and maintaining their own technology stacks, partnerships will be the best option here. This will include data-sharing partnerships between media companies and combined media delivery and self-serve ad platforms. Indeed, many broadcasters and publishers are already taking this route.

For some publishers, however, the main aim will be to simply reduce or even remove their reliance on Google's and Facebook's media and ad platforms for monetization. Doing so will mean partnering with, and making their inventory available on, alternative ad platforms that seek to offer similar levels of scale, attribution, and ease of use for advertisers to GFA but with more transparency and openness. French ad tech firm Criteo is one example of a company that is looking to build such a platform for the open internet.

# Partnerships key as Criteo aims to become the leading ad platform for the open internet

Criteo has the strategic aim of being "the leading advertising platform for the open Internet" and believes it has the technology, data, and financial means to be a viable alternative to GFA for advertisers, publishers, and retailers. Whether this ambition is fulfilled remains to be seen, but it is making moves that are largely in tune with the needs of advertisers, publishers, and the broader ad tech space.

### Criteo is repositioning to reduce its overreliance on retargeting and become a full-funnel, increasingly self-serve ad platform

The publicly listed company is best known for its ad-retargeting technology, which enables advertisers to target previous visitors to brands' and retailers' sites to drive conversion (i.e., purchases) toward the bottom of the purchasing funnel. However, in 2018 this was significantly impacted by the General Data Protection Regulation (GDPR) and moves to restrict the usage of third-party cookies for ad tracking and (re)targeting by the likes of Apple, Firefox, and Google at the browser level. This has led to consistent YoY current currency revenue decline since 2Q18 (although Criteo has since returned to quarterly YoY growth in constant currency terms).

In response to this and other trends in the industry, Criteo is actively diversifying its portfolio and repositioning itself as an ad platform that advertisers can use to drive the entire customer journey from brand awareness to purchase. While this is available as a managed service for clients, Criteo is actively making more of its platforms and services available on a self-serve basis and uses automation to reduce friction for brands, which are increasingly taking their marketing activities in-house. Criteo's AI-based Criteo Engine, a key area of differentiation and continued investment for the company, is crucial here and can automatically power product recommendations, dynamically personalize the ads shown to consumers, and optimize the ad-bidding process.

This offering, known as Criteo Marketing Solutions, also leverages Criteo's proprietary Shopper Graph, which identifies 2 billion shoppers, using IDs from "thousands and thousands" of e-commerce sites, and is – according to Criteo – the largest shopper graph on the open internet. This, combined with Criteo's suite of advertiser tools, allows advertisers to not only onboard their own customer relationship management (CRM) data in order to match, segment, and target specific audiences but also reach those audiences on a cross-device basis and link their digital campaigns to offline consumer activity and sales. This retail-focused approach should appeal to advertisers looking to maximize return on investment (ROI) with highly attributable, commerce-led campaigns.

## Criteo's Retail Media solution helps retailers take the fight to Amazon with their own ad offerings

More retailers are looking to bolster profitability by running ads on their digital properties, but for many, building and investing in their own technology stacks will be too complicated and expensive. In response, Criteo is also leveraging its strong standing in retail and technology in the provision of a second offering, Retail Media, which sees Criteo provide technology for retailers looking to give brands the opportunity to run ads on their digital properties. This includes both paid search-like sponsored products ads, which appear in search results on retailers' sites, and Criteo Commerce Display ads, which offer guaranteed native, banner, or video display ads on retailers' sites on a cost-per-mille (CPM) basis. Criteo's solution also extends the reach of these display ads across the open internet, enabling them to be targeted at relevant shoppers outside a retailer's platform on other publisher websites.

Criteo's technology allows retailers to either implement Criteo's technology but run the platform and manage ad demand themselves or join Criteo's network solution, which feeds demand across multiple retailers that might not have enough scale on their own. Building a strong network of retailers will be crucial here, especially as Criteo is already facing strong competition from Amazon in this area.

Meanwhile, the Retail Media solution also leverages Criteo's AI technology and feeds into its Shopper Graph, which can be used to bolster advertisers' display campaigns on other platforms and help them map and drive consumers along the entire customer journey.

## Criteo's willingness to partner will remain crucial

Key to Criteo's strategy is its pursuit of running a platform that is as open as possible, and this carries over to its attitudes toward partnership integrations with players across the ad tech ecosystem. Criteo already has numerous partnerships with data management platforms (DMPs), customer data platforms (CDPs), e-commerce platforms, and measurement providers. Such partnerships will be essential if tech vendors serving the open internet are to mount a legitimate challenge to the likes of GFA by offering their own accessible, end-to-end advertising platforms. Collaboration across the supply chain will only become more essential as the market moves away from cookies toward identity-based tracking and targeting, and advertisers and publishers demand greater levels of transparency.

Criteo is also looking to directly partner with more premium publishers as it attempts to broaden its access to quality digital ad inventory. Indeed, Criteo currently has direct partnerships with more than 4,000 publishers and app developers through its Criteo Direct Bidder solution. This allows publishers to monetize by directly accessing demand from Criteo's retail-focused advertisers, whose ads conform to the platform's ad quality guidelines designed to protect the user experience on publishers' sites and apps. Between 2014 and 2018, Criteo paid out $5.6bn to publishers in TACs. This is a much lower amount than that paid out by Google to its Google Display Network members, but Criteo will hope the higher levels of transparency and trust on offer, and the ability to capitalize on increasing advertiser appetite for commerce-led campaigns, will appeal to potential new partners.

Criteo certainly has a long way to go before it achieves its aim of becoming the leading ad platform for the open internet and reducing its overreliance on retargeting, which still accounted for 90% of the company's revenue in 2Q19. However, its pivot toward retail media, ambitions to provide an open end-to-end self-serve platform, continued investment in AI and ML technology, and commitment to openness should stand it in good stead for a return to growth in the future, although expanding further into other digital ad growth areas, such as connected TV, would further strengthen its position. Nevertheless, its positive attitude toward fostering alliances make it a good potential partner for players across the advertising ecosystem – from ad tech vendors through to media owners – looking to take the fight to GFA.

# Appendix

## Further reading

*2020 Trends to Watch: Digital Advertising and Ad-Funded OTT Video*, CES003-000616 (October 2019)

*The Future of Advertising: The Defining Roles of Google, Facebook, and Amazon*, CES003-000511 (June 2019)

*The Road to 2023: Advertising*, CES003-000588 (September 2019)

*Digital Advertising Forecast: 2018–23*, CES003-000376 (January 2019)

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