Peering into the Future of Digital Advertising

To cash in on emerging opportunities, organizations need to extract better efficiencies from their online marketing budgets through personalized audience targeting via programmatic real-time bidding, dynamic creative optimization, transactional ads and a wide array of emerging advertising formats.
Executive Summary

“Half the money I spend on advertising is wasted; the trouble is, I don’t know which half.”

— John Wanamaker, considered the father of the U.S. department store.

This statement, made more than a century ago, remains relevant today for many marketers. With the plethora of digital marketing channels available across various media, marketers are challenged to decide how to invest their marketing budgets to achieve the biggest bang across touch points. The dilemma extends across the entire marketing spectrum, from deciphering the right audience attributes and their preferences, to determining the optimum mix of media channels for audience targeting. While making decisions on the media mix and audience attributes, marketers often struggle with measuring ROI of ad spends and their direct impact on revenues. An additional challenge is getting the attention of the digital customer who is flooded with a multitude of messages from different brands. Amid this incessant bombardment, consumers only focus on advertisements that are relevant, customized and unobtrusive.

Moreover, in the fast-changing digital marketing landscape, marketers must contend with multiple stakeholders and work in a large gray zone of complexity and technological challenges.

This white paper covers five key digital advertising innovations that would mitigate many challenges faced by today’s marketers, enabling them to create greater efficiencies – and results – from their online marketing budgets:

- Personalized audience targeting via programmatic real-time bidding (RTB).
- Transactional ads.
- Dynamic creative optimization.
- In-app advertising.
- Native advertising.
Personalized Audience Targeting via Programmatic RTB

Until recently, customers were seen as an aggregate of online visitors who somehow arrived at a Web site. Targeting was limited to available knowledge of content, behavior, device, geography, etc. But with the evolution of real-time and algorithm-driven technologies, the focus is now on understanding each customer as an entity unto himself.

Ad tech has evolved significantly since the first clickable display banner ad debuted roughly 20 years ago. What began with blinky-ads has morphed into sophisticated real-time algorithms that target specific customer profiles across devices, content, geographies, etc.

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Despite these advanced technologies, the average click-through rate of display ads is about 0.11%, globally, according to Google. This figure implies that about 99.89% of display media spends actually go “unclicked” – a matter of deep concern to marketers.

To make the digital display channel of advertising more ROI friendly, ad targeting is undergoing radical change. In an ideal state, an advertisement needs to be customized for every consumer in the right context of the interaction that he is exhibiting with the brand at that point in time. The algorithms on which RTB functions can now, in real-time, capture, analyze and determine the “audience” arriving on the Web site and serve targeted advertisements and communication (see Figure 1).

With the maturity of RTB and programmatic targeting, and their adoption by industry leaders such as Google (DoubleClick), Yahoo (RMX) and Facebook (FBX), among others, publisher entities
— the suppliers of online traffic — are more confident of the results that can be achieved via this method of media buying and selling.

Globally, organizations are depending more on digital display advertising delivered through the programmatic form, if dollars spent are any indication (see Figure 2). Their rationale: By matching key digital attributes and preferences, this approach provides a more granular way to target particular audience segments for delivering the right message in the appropriate form to the right visitor. In fact, the approach applies Code Halo thinking, where every digital swipe, click, like, etc. contributes to producing a unique identity of an individual. By distilling meaning at Code Halo intersections, organizations can build personas to deliver a curated experience that anticipates consumer behaviors, needs and desires.

In the realm of display advertising, where the window of opportunity is limited to available inventory on the page and the attention spans of visitors, personalization of the communication message is of utmost importance. Personalization is delivered via multiple modes such as imagery, tonality, stylization, content, offering, etc. (see Figure 3).

### Delivering Custom Banner Ad Experiences

Banner ads personalized for two visitors, in terms of image and price, for a male arriving on a site from Chicago and a female arriving on a site from San Diego. Also note the color composition of the images, depending on the local weather.

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*Includes both RTB and other programmatic/automated platforms for banner, social and video ads on desktop and mobile devices; includes Australia, China, France, Germany, Japan, Netherlands, Spain, UK and the U.S.


Figure 2

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Figure 3
For instance, drawing information from third-party sources, cookies, geo-location, etc. of an arriving visitor on a Web site, advertisers can tailor their ads with a location-sensitive, demographic-relevant and contextually-relevant version of their advertisement to drive a desired behavior. With the programmatic technologies, all this can now be delivered in real time.

**Transactional Ads**

“The mission of an advertisement is to attract a reader, so that he will look at the advertisement and start to read it; then to interest him, so that he will continue to read it; then to convince him, so that when he has read it he will believe it. If an advertisement contains these three qualities of success, it is a successful advertisement.”

— Elias Lewis, an American advertising pioneer

This traditional marketing approach of attention — interest — desire — action (AIDA) to facilitate a viewer action, is gradually becoming a thing of the past.

With the advent of transactional advertisements, a marketer can sell a product via the advertisement without directing the customer to a separate Web page. The customer is able to transact within the ad unit on the site she is browsing, without switching to the advertiser's site. The ads function like strategic sales tools in the hands of the marketers.

While in appearance they are like any other form of ads that occupy a standard format on a Web page or mobile application (see Figure 4), the true disruptive power of these ads lies in their interactive features. They are activated by a gesture and present a secure transaction or coupon, sometimes in the context of an interactive shopping experience. They can also be used on social platforms to convert a conversation into a transaction. Another interesting feature is that they are intrinsically innovative in that they create a single touch point where the interaction and transaction meet, be it online or mobile.

A transactional ad may not always be successful in creating interest, but it can capitalize on a customer’s latent desire to transact. It essentially offers context to the customer’s action and is designed to encourage specific interactions. Consider the example of a customer researching online to purchase a mobile phone. During the course of his research, if he is presented a transactional ad of a mobile phone that is in his consideration set — and the ad offers a solid discount — there is a high probability that he will purchase it through the ad itself. Besides the purchase offer, related services can be included in transactional ads such as additional coupons and loyalty services.

By incorporating related product offers, loyalty services, coupons, etc. into transactional ads, companies can achieve a higher ROI from their advertising spends while reducing the time-to-purchase for consumers. The reason: The advertiser is able to utilize a single touch point for consumer awareness, product promotion and sales facilitation. By up-selling/cross-selling to the same customer via this single touch point, it can drive higher ROI from its digital ad spend.

While today's transactional ads present a few technology-related challenges and consumer security concerns, we see high potential for these ad units and predict that it will be a force multiplier for marketers in the coming years.
Dynamic Creative Optimization

“Sportygoods” is a hypothetical sporting equipment company that wants to sell its products across the world and is advertising on various digital channels. It wants to reach only sports enthusiasts, and therefore it acquires the impressions of this target audience via a programmatic RTB ad exchange. Based on the digital signature of the Web visitors, the impressions of the sports enthusiasts are obtained and presented the ads via RTB programmatic buying.

Thus far, it has successfully zeroed in on the right audience, individuals who are categorized as sports enthusiasts as a result of their digital behavior such as surfing sports Web sites, being present on sports discussion forums and/or subscribing to sports channels on YouTube. It has also designed a set of creative content that details different sporting goods such as cricket bats and soccer balls with standard information. Thus, the campaign delivers its sporting goods ads only to sports enthusiasts. So, Sportygoods’ marketing campaign follows the maxim of delivering the “right message to the right customer.” However, the company is missing out on ways to drive personalization a notch higher.

For instance, what if Jim – a London-based cricket player – is shown a standard cricket bat and the address of the local store nearest to his current location, alongside a discount for a specific cricket bat that is aligned with his requirements? But to do that for every such Jim, Sportygoods would need to create a humongous set of creative materials. So how can it do this without having to create numerous ads and spend a large amount of cash on creative production and media management?

The answer lies in dynamic creative optimization (DCO), which allows marketers to break an ad into individual pieces and create different versions for different audiences. Each ad uses a template of one to four dynamic elements related to variables such as content, visuals and calls to action. These are then dynamically assembled to serve up a customized ad based on unique user attributes. The live audience data from the ad exchange is fed into a DCO platform that serves as the decision criteria for restructuring the creative. Decision parameters could be segmentation attributes such as geography, demographics or behavior – or conditions such as weather, time of day or inventory levels. The increased adoption of real-time bidding in media buying provides an added advantage for DCO as the same targeting parameters can be used for creative optimization. DCO can be used in all ad formats such as banners, rich media, videos and social-media-sponsored links. The marketer can create thousands of customized ads on the fly, without needing its creative department to create every combination (see Figure 5).

The Art and Science of DCO
Programmatic RTB coupled with audience targeting techniques such as behavioral, contextual and semantic techniques have given marketers the ability to reach individual customers with unique offers. DCO allows marketers to take personalized targeting to the next level by pairing every targeted customer with personalized creative ads.

**In-App Advertising**

Reaching the right customer with the right message is the holy grail of marketing. The smartphone/tablet era has brought an additional dimension – reaching the right device. Among the different devices, smartphones are at the top of one’s mind when it comes to eyeball share. The smartphone’s home screen can rightfully be termed the most important real estate for marketers. Advertisers are well aware of this, and are gradually shifting their marketing budgets from desktops to mobiles, as a recent eMarketer report on U.S. digital ad spending on mobile reveals (see Figure 6).

### U.S. Digital Ad Spending by Channel

![Chart showing U.S. digital ad spending by channel from 2012 to 2017](image)

* Includes spending primarily on desktop based ads; ** Includes classifieds, display (banners and other, rich media and video), email, lead generation, messaging based and search advertising, ad spending on tablets is included.

*Source: eMarketer, December 2013.*

The next important aspect to understand is content consumption preferences and the behavior of smartphone users. An analysis of where smartphone users are spending the maximum time reveals that they are engaging with mobile apps rather than Web browsers. Hence, if marketers want to reach the smartphone user audience, they need to invest in in-app mobile advertising. In-app advertising operates outside of a browser context and blends the overall experience of using the app with contextually relevant ads. An ad network pays the ad developer to include its software code into the developer’s application so that when the app is running, the ad network can collect user information and serve targeted advertisements via the software.

In-app advertising is highly targeted, as the app typically understands the interests of the audience and delivers a focused and relevant message. The message is put in front of a self-selecting audience which is more receptive to in-app advertisement. Targeting capabilities can be further enhanced with location-based services.
Additionally, marketers can adopt certain ingenious tactics to ensure a seamless and unobtrusive messaging to create a relevant user experience. One such tactic is to sponsor rewards inside freemium apps. Depending on the app, these could be in-game currency that offers a reward to users engaging with an in-app ad. This then allows the user to access additional content without paying. The beauty of in-app advertising is that it works very well for all the players across the ecosystem, from advertisers who seek deeper engagement with their customers, to developers who can use it to monetize their applications. Developers now integrate advertising into the app right from the design phase; moreover, advertisers carefully screen different apps on the basis of category, content and user demographics to identify the right one/s on which to advertise.

While in-app advertising has a huge upside, numerous concerns have emerged. One is around increasing the discoverability of apps. A vast number of apps are created every day, but many of these are buried deep within Google Play or the iOS App store. So, there is only a handful of bestsellers on which the lion’s share of media ad money is spent. This means that lucrative applications which would garner the maximum consumer eyeballs – and hence are the best targets for advertisers – remain limited in number.

Another concern is standardization. There are many formats for in-app ads, depending on the size and aspect ratios of different tablets and smartphones, as well as the variety of OS versions. With standardization, brands will be able to leverage the same high-quality creative output across different platforms. Another challenge for developers is the need to provide users with incentives to identify themselves and opt into features such as location tracking and sharing in full compliance with privacy regulations.

Despite these challenges, in-app advertising has a very high potential and remains one of most promising innovations in digital advertising (as Figure 8 reveals).

The message is put in front of a self-selecting audience which is more receptive to in-app advertisement.

The In-App Advertising Experience

![The In-App Advertising Experience](image)

Freeum and In-App Advertising Tower Over Other App Business Models

![Freeum and In-App Advertising Tower Over Other App Business Models](image)

Note: Key countries include: Brazil, Canada, France, Germany, India, Japan, Russia, South Korea, the UK and the U.S.
Native Advertising

Until recently, online advertising was markedly different than the online content delivered to the viewer. This distinction was primarily seen in the form, function and integration of banner ads within content pages, among other aspects. The issue: Advertisers were keen to spend their budgets alongside the publisher’s content to optimize brand awareness.

The intent of such ads was to siphon visitor attention from the content and toward the ad. Over time, online visitors developed a form of “blindness” to such ads, and often tended to ignore such placements altogether. The rare exception was where the ads were extremely relevant and engaging, or were clicked on accidentally. With the phenomenal growth of digital devices and the amount of time people spend online, it is imperative for marketers to reach their audience in a form most appealing and engaging to targets.

To address this need, a relatively new format of advertisements has emerged known as native advertising. Native advertising is a concept in which advertisements are cohesively delivered and integrated into the page design so that the visitor feels the ad is part of the content. Marketers and online publishers have forever attempted to blur the lines between content and ads and provide an experience that is “native” to the publishing format. There is an increasingly high variety of forms in which online publishing properties serve their visitors. As a result, the definition of “native” has remained fairly nonstandard.

IAB, the governing body of Internet ads, has developed six forms of ads that currently constitute the native ads landscape:

- In-feed units.
- Paid search units.
- Recommendation widgets.
- Promoted listings.
- In-ad ads with native elements.
- Custom designs for native ads.

Marketers should use the emergence of native ads as a fertile opportunity to expand their outreach and advocacy of their brands to customers. In a recent study by eMarketer, such a

1994’s First Internet Banner Ad

![Image](figure_9.png)

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platform’s most appealing feature is its ability to influence the top-of-the-funnel customer via brand-building (see Figure 10).

As a result of these opportunities, native advertising has surged in the U.S. as a percentage of overall digital advertising (see Figure 11).

On the supply side, publishers are increasingly upbeat about native advertising, since its emergence gives them additional opportunity to better monetize their content. Digital media properties such as Facebook, Twitter, etc. and online media publishers (e.g., social media, content portals, news properties, video-sharing sites, etc.) are making significant efforts to integrate native ad units within their content feeds.

From a planning standpoint, brand managers must draw a holistic roadmap and wear multiple hats to address:

- Content strategy and planning.
- Content generation and distribution.
- Media planning and buying.

Though this format looks extremely appealing to marketers, it comes with its share of challenges. For instance, as a result of the uniqueness of each publishing channel, the content production costs tend to rise significantly. Moreover, content quality must remain extremely high to ensure native advertising pays off for sponsors. Furthermore, the content has to seamlessly merge into the language and tonality of the publishing platform, which is never easy for outside parties to continuously capture and replicate.

This limits the scalability of this format, especially, when compared with conventional formats such as display banner ads, e-mail, etc., where creative material can be easily repurposed for different geographies, audiences, etc.

Another associated challenge results from the numerous variations of content channels, in terms of layout, placements, experience, accessibility across devices, etc., making it difficult to build a unified measurement system that can transparently represent engagement with the brand across all the native touch points.

With an average user in the U.S. seeing over 5,500 advertisements per quarter, native ads provide an extremely compelling way to break through the clutter and seamlessly merge brand message to the growing Internet population in a less intrusive and distracting format than before.

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**Leading Marketing Objectives for Native Mobile* Ads**

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<th>Objective</th>
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<th>2017</th>
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<td>5.3%</td>
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<td>Customer acquisition</td>
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<tr>
<td>Purchase Intent</td>
<td>24.7%</td>
<td>24.7%</td>
<td>24.7%</td>
<td>24.7%</td>
<td>24.7%</td>
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<tr>
<td>Brand affinity</td>
<td>67.5%</td>
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<td>67.5%</td>
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<tr>
<td>Branding</td>
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<td>16.9%</td>
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<tr>
<td>Awareness</td>
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<td>84.4%</td>
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* Includes tablet ads.

Source: Sharethrough, 2013 Native Media Survey Results, Sept. 16, 2013 and eMarketer Report on Survey of Native Advertising, Sept. 16, 2013. Figure 10

**U.S. Social Media Ad Spending, by Type, 2012-2017**

<table>
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<tr>
<th>Year</th>
<th>Display Spending</th>
<th>Native* Spending</th>
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<td>2013</td>
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<td>-</td>
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<td>2017</td>
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Note: Includes desktop and mobile and local and national spending, excludes social marketing/measurement platforms and services, social commerce and virtual currency. * Branded content integrated directly within a social network experience.

Source: BIA/Kelsy, “Annual U.S. Local Media Forecast: Social Local Media 2012-2017” (Mid-Year Update) and eMarketer Report on U.S. Social Media Ad Spending, Dec. 18, 2013. Figure 11
Looking Ahead

Digital advertising has reached an inflection point. The innovations described above will bring about a tectonic shift in the way marketers go about planning their digital media strategy as well as how they execute digital media campaigns. The consistent themes that span these innovations involve the application of technology.

The future purchase of media inventory will be powered by programmatic ad exchanges run on real-time bidding technology. Optimization delivered by analytical techniques will be carried out both at a campaign level and at a creative level via DCO. In-app advertising will bring technology experts such as mobile application developers into the gambit of digital advertising as advertisers will work with the developers to build in-app advertisements at the conceptual design stage of an application. Transactional ads will need mobile payment gateways to tighten the traditional AIDA cycle. Native advertising will require that content writers, publishers and advertisers understand the audience’s digital signature to tailor the right content and offer inconspicuous advertisements via the native app medium.

In the backdrop, organizations must gauge their digital readiness by addressing the following pertinent questions:

• Do we have enough data about our online customers to create a unique digital-identity, or “virtual you,” for each target by distilling meaning from Code Halo intersections?
• Is our digital mechanism robust enough to serve experiences that are tailored to such identities?
• What are the different touch points that we can meaningfully engage with our digital customers to make a brand connection?
• Is our technology-inertia keeping us away from innovating, resulting in loss of customers to the competition?
• In the increasingly fast-paced and capital-intensive marketing landscape, how can we justify ROI while improving customer interactions?

Footnotes

1 Google Rich Media Gallery, July-September 2014 data.

About the Authors

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About Cognizant's Digital Marketing Service (DMS) Practice

Cognizant’s Digital Marketing Service (DMS) Practice combines strong capabilities in marketing, creative development, customer experience, domain consulting, technology and digital operations to help clients meet their digital marketing KPIs and extend their marketing leadership. The practice offers comprehensive solutions and services to help clients rethink marketing campaigns, reinvent customer experience and rewire marketing operations. Its expertise spans end-to-end CMO services, including digital strategy, multichannel campaign execution and management, marketing technology architecture and platforms and running large digital marketing operations. With its highly experienced team of digital marketing specialists, the practice prepares companies for the future of marketing through its innovative “plan, build and operate” approach and mature global partnership model.

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