Mike Shields (2s):

Hi, everyone. This is Mike Shields and welcome to season two of Next in Marketing. To kick things off, I have two big name guests in the show, Terry Kawaja CEO of LUMA Partners and Dave Morgan CEO of Simulmedia. Terry and Dave took their best guesses about where the ad economy is headed post COVID. Good news, they're both relatively bullish. However, when it comes to Ad Tech and ad agencies, let's say both men didn't hold back. Anyway, I think you'll enjoy this one. Let's get started.

Narrator (29s):

Everything we know about the media, marketing and advertising business is being completely upended. Thanks to technology and data. We're talking with some of the top industry leaders as they steer their companies through constant change. Welcome to Next in Marketing, presented by AppsFlyer.

Mike Shields (48s):

Hi, everybody. Welcome to Next in Marketing. It's our first episode of 2021. Thankfully, I've got two awesome guests industry luminaries. We've got Dave Morgan who is the CEO of Simulmedia and Terry Kawaja who's a CEO of LUMA Partners. But welcome, Terry and Dave. Thanks for being here.

Dave Morgan (1m 6s):

Thanks, Mike.

Terence Kawaja (1m 7s):

Thanks, Mike. Great to be here.

Mike Shields (1m 9s):

So let's-- You know, you guys are kicking off the year. We're trying to-- Everyone is trying to kind of break down. Okay, where are we headed in terms of the economy and the industry? It seems like you could talk yourself into saying, "Well, we just had a really bad second quarter and things are gonna grow and things going to be okay." But I wonder, it's so hard to have any visibility, are we almost kind of, you know, you're gonna have an economy where some folks are working and have the vaccine and are ready to go, like let's consume again like we were, and then you're gonna have a portion of the country that is not sure about their job or health for a while. I don't know. So how do we forecast, Terry, let's start with you, like what's the vibe in the post COVID Ad Economy? Where do we think things are headed?

Terence Kawaja (1m 49s):

Well, I'm glad you interjected the word ad because the broader economy, you're right. It is mixed signals, but I would say even on the broader economy overall, you know, I think people are fairly optimistic. I mean, 2020 could have been so much worse, right? I mean, through the lens of April, 2020, it looked like, you know, Armageddon. And yet by July, we came to the realization that whilst we're a long ways off from being done with the health effects of Covid that it appeared as though the economy was gonna survive it. I mean, obviously some sectors worse than others, but the economy writ large, government obviously stepped in and was clear that they weren't gonna let everyone get flushed.

Terence Kawaja (2m 39s):
And hopefully that dramatically improves starting at noon on the 21st, on the 20th. And I think specifically for the ad economy, when we saw spend rebound, we saw valuations continue to grow, the stock market's been almost impossible to predict, and then a deal activity picked up through the third and the fourth quarter, and we anticipate, you know, strong 2020. I would say overall that the ad world is pretty optimistic.

Mike Shields (3m 13s):
Was it just a really rough Q2 and things you're optimistic, obviously there's gonna be different ways people spend and consumed, but are you feeling like, you know, we're gonna have a pretty nice rebound if we can just get through this dark winter?

Dave Morgan (3m 26s):
I think it's gonna be really hard to separate how much of the robustness of the economy we saw on the ad economy particularly in Q3 and Q4 was stimulus related, and a lot of extra cash in a lot of people's pockets because they're not commuting. There's a lot of extra, essentially disposable income that's sitting in bank accounts. And there was a lot of people that are trying to sort of get back with, you know, desire to be back where they were. It's hard to say where that's going to go forward. I think that it has-- Things have been surprisingly strong. I would not have expected this given where we were on March 23 or where we were a month later or a month later.

Dave Morgan (4m 6s):
Experience tells me as, you know, one of the older folk here, Terry and I were pretty close on that. You know, we live through the '70s and stagflation and WIN buttons, Whip Inflation Now that Jerry Ford was distributing. We will see some significant headwinds in the consumer economy over the next 12 or 18 months and I think that there's a real question about have we-- How much of that has been avoided or ameliorated or how much of that was just pushed back a little deeper?

Mike Shields (4m 34s):
Yeah. And I think it's interesting, you made me think it's hard to know because it's so different from different pockets of the country. Like right now, you know, New York's not great, but we're okay. But if you live in LA right now, you might feel like Jesus, we're in-- We're gonna, you know, I can't see the light at the end of the tunnel at all, and it's gonna be-- It's really hard to have a feel for the different pockets in the country and how they're gonna react.

Dave Morgan (4m 56s):
Yeah, Mike, think about this. Every single, basically working person in America has had largely a guaranteed $53,000 in average income out of the stimulus and the unemployment. And so there was this bottom that

was put into the market that's coming out at some points, and so it is different geographically, but it's also, you know, we have largely, we had very high employment coming in and we've had a lot of money going into the home, the households where there is unemployment now. And so we haven't yet seen the impacts of that on the broader economy.

Mike Shields (5m 33s):
Right.

Terence Kawaja (5m 33s):
Oh, my God, Dave points out we have unwittingly just gone through a UBI experiment. Andrew Yang is gonna have all the data points he needs to make his case.

Mike Shields (5m 43s):
Right. Let's just start by just out-- Keep the checks coming. I like it. Okay. I feel like everything I've read, everything in the ad trades, everything I've written and read over the past year, we've talked about all the time. Covid has accelerated XTrend. Nothing will be the same. Everything will go back to normal. In your guys' eyes, Terry, I'll start with you, through the advertising media lens, what Covid trends are going to stick and maybe what have been maybe overstated?

Terence Kawaja (6m 11s):
So I think there are three sectors that we call the pandemic tri-factor that have been accelerated dramatically and that is streaming, both video and audio, e-commerce, and gaming. And in reverse order, I think gaming was in part a function of people having more time in their hands. But as we go back to work, I would imagine that would have some mitigating effect on time spent in that channel, although it's still large and growing and strong. E-commerce, I think, you know, in each one of these sectors, you know, there are the line is there's eight years of acceleration in eight months.

Terence Kawaja (6m 52s):
I think it's hard to go back to the farm once you've seen Paris, and so for e-commerce just the convenience factor of ordering in and, quite frankly, and something that's largely unmentioned or unheralded is the phenomenal investment in logistics and infrastructure that the delivery companies made, you know, Amazon, FedEx, UPS to enable to step up to the, you know, rate that they had to, I think it's pretty incredible. So I think the e-commerce gains are largely permanent and, by the way, we only got half way to fill in the gap between America and China.

Terence Kawaja (7m 32s):
China is still another six or seven percent penetration higher in e-commerce. So I think that's reasonably permanent. And the streaming games are absolutely permanent. And I think the Litmos test for that is to see the, you know, growing consumption of podcasts like this, and the rapid cord cutting and shifting from linear

TV viewing to a OTT or a streaming environment, whether SVOD or AVOD, and where you can really see that being manifested is in the dramatic reorganizational approaches of companies like Disney and NBCU, who have come to the realization that streaming is not only a virulent strong growth channel, but it's the future of their businesses, and therefore they made dramatic changes to effectively place streaming as a strategy at the foremost of their sort of existential future.

Mike Shields (8m 31s):
Right. It's not their side business project if they put it right at the center of those guys.

Terence Kawaja (8m 36s):
Yup.

Mike Shields (8m 37s):
Dave, Terry kind of allude to, you know, the idea of, you know, consumers got a taste for, you know, getting groceries delivered. They're not gonna go back to the old way. What about brands during this time that maybe you got more, you know, everybody was trying to become more direct to consumer and more commerce driven, what about the brands that went all in on performance advertising and becoming more of a-- Does that permanently shift the industry towards, you know, a way from a branding universe or is that overstated?

Dave Morgan (9m 4s):
Well, I think historically the branders and the performance marketers have been two very different buckets of people even in the same companies. So the companies that have both strategies, they don't mix. I think we are seeing a group emerge that are, you know, full funnel marketers who are gonna expect both and I think that is going to happen increasingly in the future. I think that you'll see companies like Proctor and Gamble where most of their company operates the old-fashioned way, and then you have some of the companies, some of the small, new emerging P and G brand that are direct to consumer and are focused on closing the loop. I think, look at Walmart. It's a great example. I mean, this week, one of the big announcements was Marc Lore is leaving the company.

Dave Morgan (9m 48s):
He famously had founded Quidsi and sold that into Amazon, Diapers.com and then sold Jet. Walmart nailed it during this COVID with their hybridized strategy of being able to order online and pick up in parking lots. Incredibly anybody that's close to Walmart knows that Marc Lore was the antithesis of that. That was actually the fight going on inside the company.

Mike Shields (10m 14s):
He wanted to build his own Amazon.

Dave Morgan (10m 17s):

He wanted build his own Amazon and the stores wanted a hybrid model, but probably only because he was the irritant in the company that they had spent billions on. They actually really accelerated that strategy and it worked and it gave them an unfair competitive advantage, and that's not gonna go back. I do think that as much as I would like to think that all advertising will be measurable and people are gonna-- People will care what happens at the bottom of the funnel. I happen to know that 90 percent of the people in our industry that talk to big data can't even make a small data decision on their own. They can't even use anything empirical to do it. And so I don't hold out hope that we're suddenly gonna see the industry change dramatically but I will tell you that those that actually can make small data decisions in be empirical and use data science and software to drive their businesses will win and those that don't will lose it.

Dave Morgan (11m 9s):

It won't be massive overnight flip, but it is going to be an increasing trend in the industry.

Mike Shields (11m 16s):

Terry, you're kind of the Ad Tech sage or historian or-- that makes you sound older, but you really have a pulse on that market. If you go back to pre-pandemic-- It's interesting, I was thinking about this. There was almost a sense of like, there is consolidation was happening, they were winners and losers. It was kind of maybe a finite universe or it was not a hot market. Let's put it that way. Now you're seeing all of the sudden IPOs you're coming back, the old are coming back, even during, you know, an uncertain economic period of pandemic. What happened?

Terence Kawaja (11m 52s):

Yeah, I would say overall a that we are in a sort of phase of the industry's development that is in this sort of net ultimate consolidation phase. Of course, that will oscillate with ebbs and flows. And what we've seen in the last year, in particular with the resurgence of Ad Tech valuations and public receptivity. I mean, let's face it. Less than five years since virtually every Ad Tech company was a complete and unmitigated investor disaster, right.? I mean, we're talking, you know, stocks that lost 97% of their value in public hands.

Terence Kawaja (12m 35s):

So, basically, a massive flush on the part of public investors and here we're now seeing enormous valuations and quite frankly, companies going out that to me seem obviously, either undifferentiated or sub scale. And, you know, when you hear of rumors of some of these ilk looking to file, you know, my answer was why you're gonna need a pretty strong tape to get that out. And guess what, we got a very strong tape. I'm not sure I've seen a stronger tape than this affording for some of these companies to get out. And that's always the problem, right? You've got good companies, public companies and Ad Tech, and now we're gonna have a crowded field and there's gonna be back to a mixed bag.

Terence Kawaja (13m 20s):

So invariably in two years, we're gonna be talking about the Ad Tech shake out and I'll do a chart and come out with another thought piece. And it's basically, you know, it's the cycle of life, for in this instance, the cycle of investment banks.

Mike Shields (13m 35s):
Oh, it's funny, on note like the period, you're mentioning five years ago when all of these IPOs went badly. You'd hear the criticism. All the investors are just painting everybody with the same brush. Everybody thinks they're all rocket fuel. It's a bad space. Now you're almost hearing-- Well, do the investors understand what's going on? They're positive-- They seem bullish on Ad Tech, but everything is changing because you're gonna have the fundamentals of how these companies work with cookies and regulation and Apple ID and all of these big changes, do they get that these guys are vulnerable? Are they not--? They don't understand what's happening here.

Terence Kawaja (14m 6s):
Well, if you read the S-1s, right, that are on file or have recently been gone public-- I mean, I don't recognize these companies by reading the S-1s. So how could-- And I'm well-informed, how could public investors ever get a handle? And all they hear is tech and scarcity, and it's an IPO, I want in.

Mike Shields (14m 25s):
Dave, what do you make of every discussion in this industry is the fundamentals are changing, targeting is going to be radically different? We're gonna lose the ability to be a one-to-one marketing, or it's all gonna be a new identifier we all use, or Apple's killing targeting. Are we over-hyping the macro change that's gonna happen here with the way we-- with digital marketing functions? Or are we under hyping it?

Dave Morgan (14m 52s):
Yes, we're overhyping it. I think to the point that Terry made it and I wanna follow on that. We will not have seen as many bad companies go public since 1998, '99. The number of train wrecks that are filing S-1s or are in confidential filings or engaging bankers is off the charts. And I think that, you know, to one of the reasons is for at least in those days, there was a pretty good gatekeeping process because the analyst function, which was expert was under the control of the banker doing the transaction. So at least there was a fair amount of knowledge until you're just outgrew them because there just weren't enough analysts to do the market because no one knew what was going on in the late '90s and because they were being paid so much money that it was great at some perverse incentives.

Dave Morgan (15m 36s):
The people that are running these transactions are just looking at essentially these S-1s that look template and then seem to have nice numbers, and S-1 is being the document you're filing when you go public. I would say you exactly the same thing if you talk about almost any real topic of substance in the advertising technology and digital advertising world, whether that's use of identity and all of these other things. The

marketplace has become so fixated on the trade, the impression trade, not the customer creation, not the customer growth. It's all focused largely on a business being driven out by intermediaries of intermediaries, that there's not much known about the other things.

Dave Morgan (16m 20s):
The people that really control identity have no reason to talk about it. They're quite comfortable with the amount of identity they have. Apple, Facebook, Google, Amazon, all of the hyping and the talk are is of the swirl of everybody that's left in the middle that thinks they might get flushed down the toilet and they're trying to see if there's any way they can float to the surface and climb up the side. And so I think that a lot of the discussion on those issues are stated only for preserving a digital ad trading economy that's actually gotten very disconnected and misaligned from a digital customer marketing, customer development growth strategy.

Mike Shields (17m 0s):
I think you're-- I think what you kind of are you saying, David, like the fixation right now the market is focused on companies that do some form of retargeting, you know, nailing that somebody that buy-- How to buy that right person, audience-based buying, whatever, when there are so much more upside or excitement or potential around companies that can help you onboard data or move it around, or, or--

Dave Morgan (17m 23s):
Yeah, I would say those are all supporting tactics. It's like, is my 17-degree pick better than the 18-degree pick tied to the shovel that I can spin it around, when you're trying to understand is our market for gold and can we transport it back? The hype is being driven by things like the trade desk with a 40 billion plus market cap and they're on their seventh year of profitability. They continue to nail it. They continue to-- They pick the model. They serve the agencies. They use much more software than the trading desks, like MediaMath and AppNexus, and they were able to out-execute their peers. And then they added a really high service level to try to like suck them in and hold them tight that they brought a lot of automation to the business and took some people's headaches away.

Dave Morgan (18m 9s):
That's a much more holistic vision. And if you look at all of their documents since then, it's never been about one specific tactic that changes the game. It'll be data is becoming more significant, international is becoming more significant, but that's the piece I'm not seeing, you know, and were certainly not seeing understanding it from the trade media because quite frankly, Mike, when folks like you stepped out, who's working on a--

Mike Shields (18m 37s):
I know.

Dave Morgan (18m 38s):

Who's got three weeks to work on an eight-page, long form piece in Mediaweek magazine, that's gonna explain how all these things work and actually did the time to have someone to fact check to see how much bullshit you're being fed.

Terence Kawaja (18m 53s):
Well, that's an excellent point and I think some of the slack has been, no pun intended, has been taken up by Substack with some folks, you know, self-publishing or quite frankly, just in tweetstorms. I mean, I have seen the most, some of the most poignant, informed and detailed analysis of the impacts of some of these identity changes from Twitter, from experts that have gone on and really thought through some of the implications. I have a slightly different take than Dave in the sense that I find at this particular time, so many companies seem to be whistling past the graveyard talking-- I mean, some of the most vulnerable companies with most vulnerable business models to cookie deprecation are talking about a post cookie solutions.

Terence Kawaja (19m 50s):
And I'm like, "Wait, what?" It reminds me of like about six years ago, there were companies that came out talking about fraud. And now this is a real problem.

Mike Shields (19m 60s):
Right.

Terence Kawaja (20m 0s):
And the loudest voices where the greatest perpetrators of fraud and I was like--

Mike Shields (20m 5s):
Yeah. That's how you know who to look at if they're the ones saying that they need to tackle it.

Terence Kawaja (20m 11s):
It's projecting, right? It's a classic tactic. <Inaudible> project. And so all, you know, companies coming out and saying, "Oh, we're well positioned for a post cookie world." I'm like, "I'm doing a head fake on what-- I don't understand what that means. That's not possible." But the one aspect of all these changes, because these are our fundamental, right? These are base level currency, foundational kind of technologies and workflow principles that we've just sort of took for granted now between Apple and the cookie and some of the privacy impingements, there is a fundamental reconstruct.

Terence Kawaja (20m 54s):
It's not as simple as saying, "Okay, fine. We won't use third party anymore. We use first party." Well, it's not that easy. First of all, first party doesn't scale. It doesn't federate. You've got security issues.

Mike Shields (21m 6s):

Right. Not everybody can be dollar shave club with New York times.

Terence Kawaja (21m 9s):

<Inaudible> things that constrain your ability to propagate targeting in a world that's post third party cookies. So one thing we didn't fully appreciate what happened is with the changing of the guard or the anticipation of the changing of the guard that it would because so much M and A. I mean, we've done a ton of identity M and A or doing more as companies scrambled to reconfigure their capabilities for said post cookie world.

Mike Shields (21m 36s):

I was gonna ask about that. So is the-- You mentioned there's been a lot of M and A, which you might not expect, again they're in this economy. Are we-- And there's been a lot of funding, are we gonna see--? Let's put Ad Tech aside of it. Is there gonna be a ton of investment in, call it MarTech, call it companies that are enterprise identity resolution slash onboarders slash new ways of constructing a profile of a user are more probabilistic or you can see a ton of investment in that world? Terry, I'll throw that to you, I think.

Terence Kawaja (22m 6s):

Yeah, I definitely think so. I mean, I think, you know, you look at it-- Forget about the VC scramble of the $800 million invested in CDPs, you know, whatever that is. I think bigger picture, right? You've got the snowflakes in the Twilio's of this world, you know, trading in a hundred billion dollar and 50 times forward revenue. These are foundational infrastructure businesses that I think are here to stay. And quite frankly, this is prima facie evidence of a term that Scott Galloway references. He uses the word oxygenate the market. His claim is that a breakup of big tech would oxygenate the market.

Terence Kawaja (22m 47s):

He could not be more correct in the sense that I'm not talking about if Instagram was separated from Facebook, I'm not really sure what that does at all, but take something that's integrated like AWS from Amazon or DoubleClick from Google. I think that would have the single greatest value creation and leveling of the playing field that would oxygenate the market than almost any other regulatory and enforcement that I can think of.

Mike Shields (23m 19s):

That's a walled garden destroyer in so many words?

Terence Kawaja (23m 22s):

No. There's still gonna be the walled gardens. You know, there's still gonna be strong, big companies. But I think the most violative antitrust element is the player coach, is the, you know, the umpire and the player being on the same team. It <inaudible> sounds anti-- It sounds anti-competitive. I told you the same person that you're playing in the volleyball court is also determining the rules. Well, you would say, "Well, that's not fair."

Mike Shields (23m 51s):
Right.

Terence Kawaja (23m 51s):
Well, sure, that's not fair. And I think people are excited about the big data opportunities as evidenced by the market caps of those large data infrastructure companies. I think, invariably, they will become players as they logically look at vertical integrations in and around media and marketing. And I think there is a bright future for those ilk of companies. Now, we are in a capitalist society and so we're always gonna get over-funding and too many players in the world, invariably be a shakeout, but that will not mean that the effort was not valuable. There will be winners. And ultimately when that consolidates down, we'll have a handful.

Terence Kawaja (24m 32s):
You know, the fact that we have AWS and Google and Microsoft Azure is a fantastic thing that is, I bet, it compared to let's say a world where there was only AWS has probably the value creation that's occurred has been in the denominated in the hundreds of billions.

Mike Shields (24m 52s):
Dave, we've been talking about like how the, you know, the ad industry is becoming more performance oriented. There's a fundamental rewrite of the way things are targeting. Infrastructure needs to change. We were mostly talking about it through a digital lens, but what-- Let's talk about television, if you would, why that--? Help people understand why there's obviously an enormous opportunity to apply digital like principles and targeting to TV. But why--? The infrastructure there is so challenging right now to do that. People think you just like AT&T buys Warner media and just turn into hundred percent addressable, just like the web and boom, it doesn't work that way. Can you talk about why that's so challenging?

Dave Morgan (25m 32s):
Yeah. Well, I think it's for a couple of things. One, the online digital ecosystem was built to serve a different market than the TV industry was built to serve. Virtually, all of the technologies that have been adopted in the digital advertising marketing world are focused on direct consumer contact, the capacity to create direct response or direct marketing high return on investment closed loop activities.

Mike Shields (25m 56s):
Yeah.

Dave Morgan (25m 56s):
They were never about mass reach. They were never about creating 100 percent user attention share of

owning, share of voice around consumers. It was about capturing the bottle of funnel and accelerating it. And so in the world of digital as we know it today has been built around the world where the amount of potential supply, the amount of consumer contact available to any one time is going up five X doubling at least every year, just think of it. I mean, company like Twilio that basically makes a consumer contact as a service is making so you can get to anybody at any time with anything and knowing where they are.

Dave Morgan (26m 35s):
TV is all about how can you own someone's attention for a finite amount of attention for a finite amount of, and a guaranteed basis. That's fundamentally scarce. And so it's the opposite of the digital direct marketing where I am trying to find the cheapest contact point to have a contact and convert it. It's all about how can I secure a guaranteed amount of visibility, awareness, attention, owning, and be able to build my business around that? And historically you did that by-- You looked at that like shelf space and you just-- Let me clear out so that, you know, the half a dozen car companies and a couple laundry detergent companies and a couple razor companies could basically own all of that time, operate essentially as a cabal with the sellers and their agent buyers to keep everybody out.

Dave Morgan (27m 25s):
And so there was never a need to bring in too much precision because you were basically buying out the market. You didn't have to optimize an edge of the market. And the biggest issue that we have today is that we've had an aging out of the people who knew how that is infrastructure was built and how it operates and why it works the way it does. You have a bunch of people who have no idea about how an economy built in a market built on the other side of operates. And so you had a lot of stuff, which was just-- I mean, quite frankly, I think what happened with AT&T and Xandr, and it wasn't like it wasn't a predictable. Anybody that had any brain in their head and had seen anything new, what was being spouted out there was full of BS. I actually am really, really personally pissed off at the people that were doing it because they knew better.

Dave Morgan (28m 7s):
And thousands of people have lost their jobs over at Time Warner because of the BS that they were spouting that they pretended to believe. And maybe they did believe and that was even worse. It was never sustainable. It was never gonna be done. It was never possible. And so they take a lot of people in the industry for halfwits and that's unfortunate. And it's also unfortunate they get stages to do that.

Mike Shields (28m 30s):
Right. Terry, you're about to jump in with something.

Terence Kawaja (28m 33s):
Well, I think Dave's point is a good one. I mean TV people are TV people, right? And digital people are digital people. It's oil and water and, you know, everything, their approach, their thesis and yet-- You know, years ago, 2014, I have published something that talk about the future of TV. And it was really an educational piece

for digital people. It taught them the fundamentals of the TV business and I consulted with Dave on this to make sure I got it right. And what was shocked me was, you know, hopefully it was a reasonable narrative throughout it, so it was compelling, but the digital people were like, "Wow, I had no idea."

Terence Kawaja (29m 16s):
I said, I know. And having spent a decade and a half doing television broadcast and cable deals, I have an inkling of an understanding of how that business works. And you, Mr. Digital who have been running around saying, "Programmatic TV is gonna kill linear."

Mike Shields (29m 33s):
Right.

Terence Kawaja (29m 33s):
You know, I'm like, "You look and sound like an idiot. If you only knew the fundamentals of TV business, you realize that you are talking baloney." And sure enough, you know, they didn't and when they saw it, they were like, "Ha. Ha. I never knew," which is why one can simultaneously say that "Yes, TV's gonna become more addressable. Yes. It will become more digital like in the sense that you'll be able to do a smaller audience targeting at a higher CPMs. And, and you know, maybe it will be a performance element, although I don't think it will go all science,"

Terence Kawaja (30m 13s):
and at the same time, say that linear is going to be a substantive channel for advertising in 20 years' time from now.

Dave Morgan (30m 21s):
Yeah. And I think to that point, you know, this is an example that may be using some digital language that makes it a little easier for the pure digital folk, one of which I used to be a long time ago to wrap their heads around. One of the strategies and probably that strategy that Google is promoting in a post-cookie world is the notion of embracing cohort targeting. Now cohort targeting is recognizing it is not a one-to-one world. It's actually still a one to many, but maybe it's like mass customization and you could have-- You could break a lot of the market into 20 or 30 or 50 cohorts, and you could be dealing with them somewhat differently and you can improve the yield by 10x.

Mike Shields (31m 2s):
What do you mean by that, Dave? Do you mean like a--?

Dave Morgan (31m 4s):
Cohort targeting in the oldest basis would have been sex age and demographics, and say people that lived together or a certain age is by together. Now we would say people that consume media similarly or people

that have been more recently looking at automotive content might be more interested in automotive will call them--

Mike Shields (31m 20s):
You're not talking about like is this cluster of truck driving older middle-aged men and, you know, who loves to hunt, not that specific?

Dave Morgan (31m 28s):
No, no. It's like Scott McLaren in a long-time leader in the digital world over the years. I used to talk about left-handed bowlers in Minnesota and I'm sure there's some really predictable things they buy, but there aren't enough of them. They also <inaudible> a stereo window too, and you can predict some things, but it's finding a middle ground and that's where the world is gonna go much more. And that's where we're gonna find a balance between delivering similar messages to large groups of people. This was the Reader's Digest magazine, where 10,000 different editions of the exact same product delivered every week. They mass customized it with articles and of the types of articles carried certain ads. The area to look at and where this was going to be innovated is in the intersection of two of the three legs of Terry's tool he talked about in this Covid economy, streaming and gaming.

Dave Morgan (32m 23s):
The games realize people are inside those games and that's become an ecosystem for them. They're meta-verse if I have to hearken back to Snow Crash. And so you see Fortnite putting movies and trailers inside. You see <inaudible> Yeah, exactly. Inside. They see what's going on with Twitch and YouTube, and the gaming companies are like, "Wait a minute. Why do I wanna create big audiences and a lot of attention and let someone else capture it?"

Mike Shields (32m 51s):
Right.

Dave Morgan (32m 51s):
So they're gonna put more inside their environment and it's gonna become-- And it won't be--

Mike Shields (32m 56s):
We're a platform too. We're not just the game.

Dave Morgan (32m 58s):
Exactly. And so I think you're going to see a real movement of more broadcast-oriented content inside those games. They will, by its nature, probably be more cohort delivered and more gaming mechanics and how it is both created, delivered and consumed.

Mike Shields (33m 15s):

But what about-- Okay, I'm gonna come back to game in a second, but you guys kind of hinted at this because we've talked about how big streaming was during the pandemic and that's probably not going backwards, but that's exactly where you're seeing this clash play out with TV people and the digital people. They both like that to be theirs I think and, you know, like the trade desk folks and the people that they'd like to treat that like digital and turn that into, you know, and just another form of place where you can be specific and targeted audiences and retargeting. And then the TV guys, I think, would like to maintain control there. There's always so much ad supported activity to go around. Is there a roll-up that can happen that could turn CTV into a, you know, the next digital platform?

Mike Shields (34m 0s):

Is that gonna be out of a world of walled gardens? Like how do you see that playing out?

Terence Kawaja (34m 3s):

Well, it is looking like more and more people have recognize the benefits of the closed-loop data system and therefore, wanting to build true marketplaces that spend from both supply to demand, which makes it harder for the open internet. But, you know, I think there'll be a scramble. I think we're in for sadly, you know, these things are never, they're never clean, right? So we say CTV and streaming and everybody goes, "Yeah, yeah, yeah, makes a lot of sense." Because from a consumer value proposition and in an experience-based, you know, they want that, but there is gonna be a channel proliferation.

Terence Kawaja (34m 43s):

It's gonna be messy. Discovery has already a problem. Now imagine if it fragments, you know, even further. So that part of the UX-- And by the way, everyone from the OEMs, right, the equipment manufacturers, the technology, the Apples and Roku's streaming technology, the cable companies, everyone's vying for at the top of the waterfall to try and get in front of everything. But that's kind of hard to do because everyone's limited by the footprint of their device proliferation or in the case of cable companies, their geography, which is why I believe is not being heralded, but are not being acknowledged, but I believe Apple should sell Apple TV devices for zero.

Terence Kawaja (35m 26s):

They should, they should distribute them to every American and just for free, like, just get it out there. I think they're making a big mistake by trying to run a profit from that.

Mike Shields (35m 36s):

They are <inaudible> giving away Apple TV service at this point. You can get that, you know, almost--

Terence Kawaja (35m 41s):

And that should-- That be something approximate-- Look, whoever gets the stranglehold of the top of that waterfall, I mean, look at it in the app world, look at it in every channel, right, at the top of the waterfall rewards with undo sort of, you know, positive economics. So I think it's a big scramble there. That said, it's gonna be messy. I mean, AVOD's nascent. Yes, it will grow, but my best guess is somewhere around 50, 55 percent of the 70 billion will be the AVOD market. So that's a $35 billion market. Yeah, that's a decent market. It's not an enormous market. And it is messy as hell, filled with fraud, filled with all the negative players that took advantage of the display world.

Terence Kawaja (36m 29s):
So we've got a lot more rough road to get over before we get to the smooth world of streaming.

Dave Morgan (36m 34s):
Yeah. So think about everybody wants to apply digital technologies and own AVOD, but there just isn't very much because while streaming is 24 percent of what is consumed on a TV device today, now that includes YouTube in short form, which a lot of people wouldn't necessarily count, but let's count it all for now. It's only 4 percent of advertising viewed on TVs by the time. Four percent, because there's light ad loads, skippable ads, and six of the top eight services don't carry any ads.

Mike Shields (37m 4s):
Right.

Dave Morgan (37m 5s):
Netflix and others. So--

Mike Shields (37m 6s):
So, yeah. It's a lot of Netflix or you're watching Peacock with only a couple ads. It's really--

Dave Morgan (37m 10s):
And they are not watching much because Peacock. It's tiny. It's not even on top 10. Peacock's not even at the top 15 in total viewership, nothing close. So those things aren't on the radar. And the point is, so you can't wish it into existence, but Amazon knows that for a certain portion, I'm just gonna make this up of its Prime members, 5 percent would not be Prime members without the video for free. So there's a whole lot of money that goes to that and let's just say that some number of like 20 million people that are paying regularly, only because of that. B, Amazon knows that people that watch movies and shows on Prime buy twice as much, twice as fast. They know that.

Dave Morgan (37m 50s):
So they don't have to put ads out there to dramatically impact the commercialization of their e-commerce offering. It just works.

Mike Shields (37m 57s):
Yup.

Dave Morgan (37m 57s):
And so I think we're gonna see a lot of people look through that and realize that stream content is the green stamp. It's the RadioShack battery card. It's the free toaster the bank gives you to sign up for something.

Terence Kawaja (38m 11s):
It's the featurization of media as again--

Dave Morgan (38m 14s):
Yeah, a hundred percent. A hundred percent. And they're gonna be, if a bigger than 35 billion as Terry says, Amazon's competing in how many trillions of their consumer purchased, like $5 trillion marketplace and it's got six or seven percent, or four or five, on his way to six or seven or 10? It's nothing because once you pay for content and don't rent it from a studio. So you own the IP, you own the writers, you own everything, all of its rights, redistribution rights. You got it forever. What's the number one watched thing on Netflix by far, by far, by far? The office.

Mike Shields (38m 51s):
The office <inaudible>

Dave Morgan (38m 52s):
It's available everywhere.

Mike Shields (38m 53s):
Right.

Dave Morgan (38m 53s):
Let's think about that.

Terence Kawaja (38m 55s):
Right.

Dave Morgan (38m 55s):
People will watch stuff if you put it up and they seem to know it and like it.

Terence Kawaja (39m 1s):
Right.

Mike Shields (39m 1s):
Right. But on that note, it's kind of interesting, Terry, you hinted this, like what's the--? There's gonna be a-- Is there a play for an Apple, Amazon or Google that can actually lead to them-- You know, I think people wonder, are they going to steal the $70 billion market somehow? Are they gonna make a mess? Are they gonna become the operating system? Who wins that? Can any one of them do that? Is it as simple as giving everything, you know, giving away devices, picking themselves into television for free? Is there a play for the fan guys to totally own television? I don't know.

Terence Kawaja (39m 33s):
I think there'll be major players, but, you know, it is-- They can win and big old TV can win. In other words, look at the studios. The studios are creating content for Netflix and for Amazon. Who cares who you sell it to, right? It's the gold rush and they are selling pickaxes.

Mike Shields (39m 54s):
Right.

Terence Kawaja (39m 55s):
You know, who cares who's buying them? So long as they were paying, you know, proper prices for the content, the Hollywood studios are on fire right now. Where do you think that content is coming from? The tech platforms can't make that on their own. Those have to be the creative types in Hollywood and they're creating it. So they're good. It's just-- It's really more about the packagers and the distributors and those companies are kind of in for a world of hurt.

Mike Shields (40m 22s):
We're close to wrapping up here. This has been a terrific discussion. I wanna make sure we don't-- There's one faction we haven't talked about it in all of this disruption in change and that's another area you both know really well and that's the agency business. The agency model was already under a ton of pressure before Covid, between you have consultants coming out there and then people going more and more brands going in the house and you're hearing now those, the biggest holding companies talk about how they need to become technology companies and consultants themselves, and making their commercial is gonna be secondary. Can they pull that reinvention off? Did the pandemic help them at all? Like, you know, cement their relationships with brands? Dave, I'll start with you in assessing the agency future and maybe Terry you can jump in.

Dave Morgan (41m 5s):
So a couple of things. One, they stopped becoming agents, being agents a long time ago. Agent actually presumes a principal agent relationship. You actually only act on behalf of the company that's your client. And they gave that up a long time ago and that's fine. They made their own decisions to do that. I think that the large holding company agencies are in a really, really difficult time. There gonna be much smaller.

They're gonna look out for the folks that really can't do it on their own and they can call themselves tech companies, but you can't buy 25, 30-year-old pieces of crap tech companies, run on, you know, run on mainframe and client server environments and pretend that your tech. So I think to be a realistic, it doesn't mean we won't see a lot of agent-oriented companies having really successful businesses going forward in creativity and performance marketing.

Dave Morgan (41m 52s):
I think they will be building around marketing technology companies. And let's not forget, companies like the trade desk. Yeah, they're software, but the vast majority of the people that are working there are providing service. Facebook and Google have huge engineering teams, but they have tens of thousands of people providing customer service, relationship management, account management. And so they are becoming essentially the fact on marketing services companies. And I think we're gonna see a robust future for them, but you know, look, the market caps, I think what Roku could like use 30 percent of its market cap and own every single one of the top five collectively holding companies with 30 percent of its market cap.

Dave Morgan (42m 37s):
That's what I'm trying--

Terence Kawaja (42m 38s):
<Inaudible> to the trade desk, yeah.

Mike Shields (42m 40s):
Right.

Dave Morgan (42m 41s):
So the point is, is that really what we should be defining our conversation about? Like those guys are-- That's yesterday, let's talk about tomorrow.

Terence Kawaja (42m 48s):
Where Dave ends is where I'll start and finish, which is who cares? Look, the scrambling that's going on, right, with the data agencies, you know, Dentsu buying Merkle, which was pretty good. IPG buying Acxiom, which was eh, and Publicis buying Conversant, which was blah. I mean, these are all lemmings and they're just acting like lemmings because they gotta have a me too. These are scrambles as their ship is taking on water and it's too little too late. It's really hard to get there. I once said, how can they possibly, and this was back in the heyday when they were trading it, you know, <inaudible> was trading in two times.

Terence Kawaja (43m 33s):
I said, when Accenture's starting salary, starting associate salary is 4.2x the starting salary of the average WPP agency person, how can they possibly win? And they said, "Wow, where'd you get your data?" I said,

oh, I made it up, but it's roughly approximately right. And I've had that confirmed that it's not far off. They're hiring at just a different beat. They have a different business model. They are hiring a better athlete. They don't need as many of them, they have a lot more inherent operating leverage on their businesses. They're--

Mike Shields (44m 7s):
It's not a fair fight.

Terence Kawaja (44m 8s):
It's just not terribly interesting to talk about agencies.

Dave Morgan (44m 11s):
Think about this, to the point that Terry just made. How happy was Scott Howe when he was able to dump the Acxiom business and be LiveRamp only? And he was the Acxiom on business that had bought LiveRamp? You know, I mean, he dumped something and they <inaudible>

Mike Shields (44m 26s):
That's very telling behavior.

Dave Morgan (44m 27s):
And the stock went up. It went dramatically up.

Mike Shields (44m 31s):
All right. Well, that's a very bullish note to end our conversation. But I feel like we could talk about this stuff forever, guys, but I really appreciate your time, Terry and Dave. Awesome conversation. Happy late New Year and we are looking forward to talking to you again soon.

Dave Morgan (44m 46s):
Thanks, Mike, <inaudible>

Terence Kawaja (44m 46s):
Thank, Mike.

Mike Shields (44m 47s):
Thanks, guys. A big thanks to my guest this week, Dave Morgan CEO of Simulmedia, Terry Kawaja CEO of LUMA Partners, and, of course, my partners at AppsFlyer. If you like this episode, please take a moment to rate and leave a review. We have lots of more to bring you, so be sure to hit that subscribe button and we'll see you next time for more on what's Next in Marketing.