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MAR 2023
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ID Resolution H1 2023

The Ad Industry Gets Serious About Cookie-Free Diets

Spending on identity resolution will reach $10 billion in the US this year, just one indicator of the monumental challenge in reconciling ID conflicts. This eMarketer report provides insights into rising costs, the role of data clean rooms in ID matching, the future of IP addresses, and four best practices for navigating the fluid ID landscape.

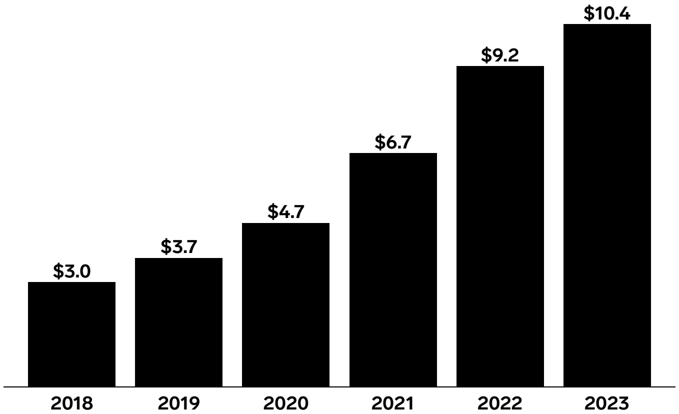
ID Resolution H1 2023: The Ad Industry Gets Serious About Cookie-Free Diets

ID resolution—identifying individual users across digital touchpoints— is critical for marketing success. But the deprecation of legacy identifiers will continue, and the ad industry needs to adopt post-cookie solutions now before its hand is forced. Marketers must test new collaboration paradigms like data clean rooms (DCRs) and revisit older concepts such as probabilistic matching and contextual targeting. The order of the day is experimentation.

KEY QUESTIONS

1. How is the ID provider landscape evolving?
2. Where does ID resolution factor into marketing budgets?
3. What role do DCRs play in ID matching?
4. Will IP addresses meet the same fate as third-party cookies and mobile device IDs?

US Identity Solutions and Services Spending, 2018-2023
billions



Note: includes ID resolution platforms, data, and services (first- and second-party database management platforms, data hygiene and processing, 3P graph, and enrichment data)
Source: Winterberry Group, Feb 26, 2023

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KEY STAT: ID resolution will be a $10 billion industry in the US this year, just one indicator of the monumental challenge in reconciling ID conflicts.

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The costs of ID resolution are rising.

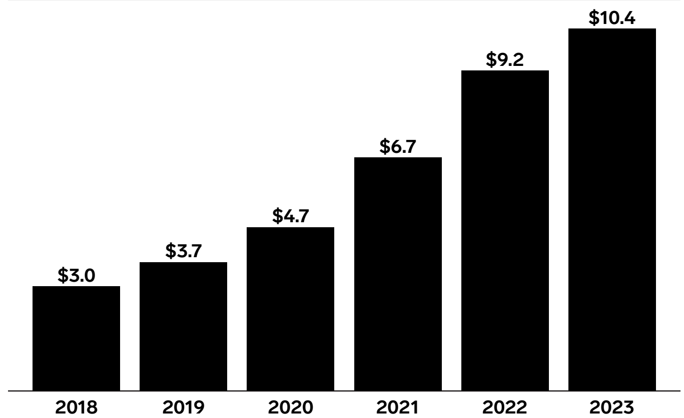
Tying multiple online, offline, and device IDs to a single person was always complex and costly, even when third-party cookies and mobile identifiers were commonly accepted tools. As legacy identifiers continue to erode, the costs to target and track users' digital activity have only risen.

- **Spending on US identity solution has been steadily growing over the last five years.** Expenditures will reach $10.4 billion by end of 2023—a 13% increase over 2022 and nearly triple the 2018 total, per Winterberry Group data shared with us. Driving these increases are digital channel expansion, rising demand for first-party data relationships, and adoption of costly technologies, such as DCRs.

- **Privacy-preserving technologies cost hundreds of thousands of dollars a year.** Brands, publishers, and agencies spent an average of $433,000 on identity solutions in 2022, according to the Interactive Advertising Bureau's (IAB's) State of Data 2023 report. Spending on DCRs averaged $376,000, and spending on related technologies such as customer data platforms, data management platforms, and consent management platforms ranged from $377,000 to $437,000.

- **There are environmental costs as well.** Ad-supported publisher sites used an average of 14.84 approved cookies and 62.44 unauthorized ones, per a November 2022 study of over 63,000 domains by identity provider ID5 and data management solution Sincera. This gap means ad tech companies are dropping cookies on publisher sites without the publisher's knowledge, and those cookies need to be synced through a practice known as "piggybacking." This is an "unnecessarily energy-intensive process" that hinders the ad industry's push to reduce its carbon emissions, according to the study.

US Identity Solutions and Services Spending, 2018-2023
billions



Note: includes ID resolution platforms, data, and services (first- and second-party database management platforms, data hygiene and processing, 3P graph, and enrichment data)
Source: Winterberry Group, Feb 26, 2023

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As the cost of identity solutions escalates, so does the share of US programmatic digital display ad spending that goes to programmatic direct channels and private marketplaces. This indicates, as advertisers prepare for the cookieless future, they are increasingly forging direct partnerships with publishers that have first-party consumer data and honing their own first-party data strategies while partnering with ad tech vendors and publishers that can activate off of that data.

Marketers and publishers are getting serious about the ID phaseout.

Even if Google sticks to its current timeline of phasing out browser and mobile IDs by year-end 2024—not a given considering it has twice delayed its plans—the deprecation of third-party identifiers will have been a slow and gradual process. Or, as IAB CEO David Cohen more colorfully described it in February 2022, "the world's biggest slow-motion train wreck."

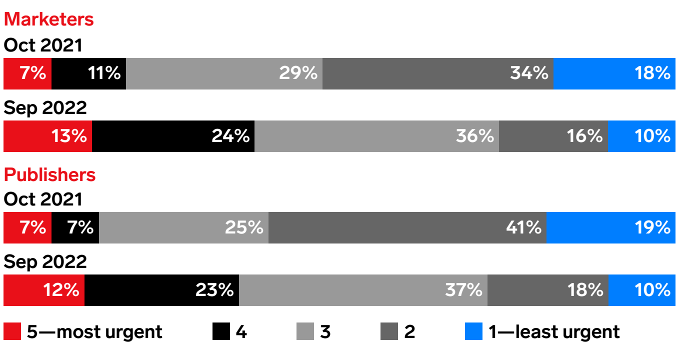
- **The ad industry has started taking ID deprecation more seriously.** Rising numbers of marketers and publishers worldwide regarded identity solutions as urgent, compared with October 2021, according to a September 2022 Lotame study conducted by PureSpectrum. But there is room for progress, as a minority of respondents rated the ID issue as a level 5 urgency (the most urgent) or level 4.

- **Post-cookie plans are falling into place.** Nearly 50% of marketers and publishers said they would have a cookieless strategy in place by the end of 2022, per the ID5 State of Digital Identity 2022 report. Another 29% said they'd be ready by mid-2023, and the remaining 22% had plans in place.

- **More and more marketers are using AI to solve identity issues.** Almost 90% of marketers who used AI in 2022 employed the technology to resolve customer identity issues, according to the eighth edition of Salesforce's State of Marketing report. That was an increase of 22% over the 2021 figure—the biggest spike among AI activities measured in the study.

Extent to Which Selecting Identity Solutions Is an Urgent Priority According to Marketers vs. Publishers Worldwide, Oct 2021 & Sep 2022

% of respondents



Source: Lotame, "Beyond the Cookie: Next-Generation Customer Acquisition & Retention for Marketers and Publishers" conducted by PureSpectrum, Nov 3, 2022

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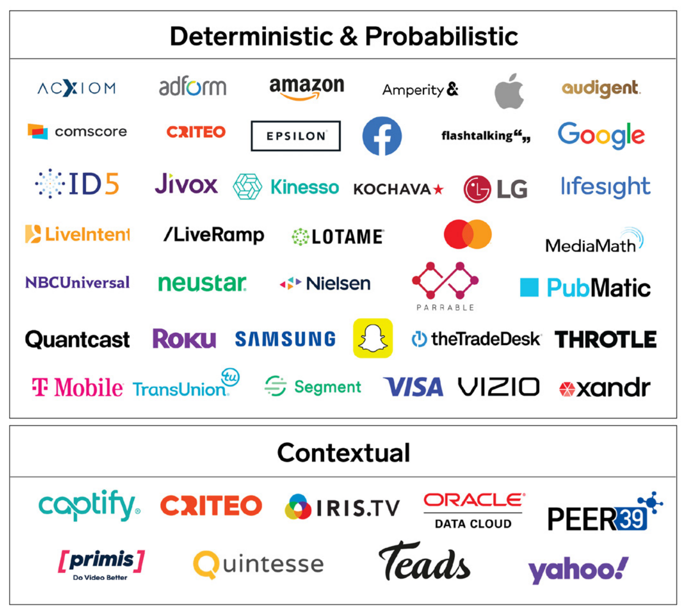
Ad tech companies we interviewed are also reporting a greater willingness by their clients to test new identity solutions, such as cookieless IDs and data clean rooms. "A year ago, our clients were still trying to understand which cookieless IDs they should be using and what collaboration platforms could mean for them," said Budi Tanzi, vice president of product at Experian Marketing Services. "Now they're like, 'We have a use case that we want to collaborate on with XYZ partner, and we want to test the solution.'"

The identity ecosystem involves everyone.

- **Identity challenges span all types of companies.** Nearly 50 firms have global identity solutions, per Prohaska Consulting, and even more that operate in specific regions. Providers include tech giants, CTV platforms, social media companies, device makers, and more. This diverse and dizzying array shows how much is at stake in moving beyond cookies and mobile IDs into a more complex, more uncertain, but potentially brighter future for ad targeting and measurement.

- **Consolidation is likely, given the fragmented space.** The ID landscape is rife with participants who are partners as well as competitors. It includes some of the biggest, most recognizable companies in the world as well as obscure, independent vendors with low profiles even in the industries they serve. This scenario is a recipe for consolidation, especially at a time when digital advertising is under pressure from economic headwinds, rising interest rates, and recent underperformance by bellwether companies.

Global Identity Partner List



What are the keys to success in a post-cookie world?

Legacy identifiers are fading away, and consumers are exercising their right to avoid being tracked. As a result, marketers and publishers are resorting to old paradigms that have taken on fresh relevance in a privacy centric world.

- **Universal IDs.** The slow phaseout of legacy identifiers has sparked a gold rush of company- and industry-led proposals for universal IDs. Approaches include probabilistic data, deterministic signals, or both. Solutions also vary based on their environments, as some focus on web browsers and others on mobile devices. But the common denominator is interoperability—or at least a push to sign up a critical mass of partners across the programmatic supply chain. Company-led solutions include The Trade Desk's Unified ID 2.0, LiveRamp's Ramp ID, and ID5's Universal ID, and industry initiatives include Advertising ID Consortium and the Secure Web Addressability Network.

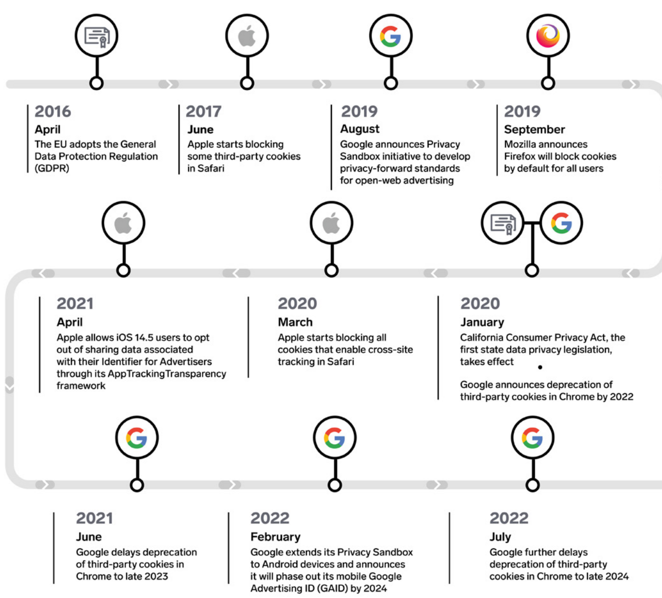
- **First-party data.** Apple's privacy reset and Google's ID deprecation plans highlight the importance of first-party data. Companies with D2C channels—brands, publishers, media networks, and retailers—want to leverage that data for targeting, personalization, and attribution. The challenge is that first-party data is often limited in scale, outside of giant walled gardens, and it still needs to be matched with other online and offline data sets in a privacy-compliant way.

- **Data clean rooms.** DCRs are picking up steam as practitioners realize the benefits of sharing information in anonymized, privacy-compliant platforms. DCRs don't solve every identity resolution challenge, but they are increasingly part of the post-cookie mix, especially for buy-side players. While only 20% of marketers in North America had data clean rooms in Q2 2022, according to a study from the CMO Council, another 24% were planning on adopting them. On the sell side, DCRs are also gaining in use but inherently challenging because of their cost. "For publishers, it becomes challenging to prove the ROI of the clean room," said Bob Walczak, CEO of consultancy MadTech. "If you have 20% penetration, apply any CPM you want to that and look at your revenue, and it's not significant enough."

- **Probabilistic solutions.** In their September 2022 study, Lotame and PureSpectrum noted 42% of marketers and publishers worldwide planned to use probabilistic solutions—a sharp increase from 28% a year earlier. This is one of many indicators the erosion of third-party cookies and mobile IDs is leading to a rethink of how consumers are targeted. While deterministic approaches still abound, there's a lot of talk in the industry about layering in probabilistic data sets or using hybrid solutions that leverage both types of signals. The sudden surge of AI tools is only adding to the reconsideration of probabilistic approaches.

- **Contextual targeting.** In a similar vein, many marketers, publishers, and ad tech vendors are taking a fresh look contextual targeting: 63% of marketers and customer experience professionals worldwide planned to use contextual targeting to track and target customers, the CMO Council found in October 2022. Although contextual targeting presents measurement challenges, it was by far the leading tactic in the survey, followed by ad experimentation and testing.

Major Events in the Ongoing Deprecation of Third-Party Identifiers



Source: Apple, California Office of the Attorney General, European Data Protection Supervisor, Google, Mozilla
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Are IP addresses next?

IP addresses are considered personal identifiable information by the European Union's General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA). Those laws ushered in a more privacy-centric era of digital advertising and, by extension, the beginning of the end of third-party cookies and mobile IDs. Will IP addresses also face deprecation?

- **For some, IP addresses will follow in the wake of browser cookies.** "The collection (and use) of third-party cookies is coming to an end, and another internet tool will likely follow—the IP address," said Bill Bruno, CEO of D4t4 Solutions, in a November 2022 guest editorial in Forbes. He argued IP addresses "reveal pieces of personal identifiable information that anyone with a little know-how can access," leading to "an opportunity for misuse by cyber criminals."
- **Others expect IP addresses to persist.** "All signs point to the IP address sticking around for the time being," said Andre Swanston, senior vice president of media and entertainment at TransUnion, in an April 2022 column in AdExchanger. "After all, the alarm bells signaling the demise of cookies have been ringing for a decade."
- **Whatever happens, the IP address battle will play out in the fastest growing area of digital advertising:** CTV. IP addresses are to CTV what third-party cookies were to web browsers and mobile IDs to smartphones. The difference is neither the ad industry nor regulators have signaled an imminent phaseout of IP addresses. If that changes, the CTV ecosystem could be in line for the same reckoning that social platforms and marketers have faced amid cookie and mobile ID deprecation.

Four best practices for navigating the fluid ID landscape.

- **Continue to test and learn with deterministic and probabilistic approaches.** The biggest advantage of deterministic methodologies is their accuracy, while probabilistic data sets are generally regarded for their scalability. Most respondents in ID5's State of Digital Identity report chose a mix of the two.
- **Don't wait for Google.** The tech giant has twice delayed its planned phaseout of Chrome cookies, but don't assume a "boy who cried wolf" scenario. It's better to be overprepared than underprepared for the eventual deprecation of all third-party identifiers. Plus, with Apple already having severely restricted tracking by default, cookies having already been deprecated in other popular browsers, and new state regulations on the horizon, there's no excuse for waiting until the deadline to act. The cookieless future is now.
- **Don't wait for privacy laws.** California was the first US state to enact stringent privacy legislation that limits the use of personal identifiable information. A similar law is already in force in Virginia, and other privacy regulations are scheduled to take effect in Connecticut and Colorado (both July 2023) and Utah (December 2023). The writing is on the wall: Even without a federal digital privacy law (the American Data Privacy and Protection Act is in legislative limbo), the US is leaning toward the protection of privacy at the expense of the ad industry. This is a clear signal to practitioners to be proactive in implementing new solutions to their targeting and measurement needs.
- **Don't assume IP addresses are here to stay.** The jury is out on whether IP addresses will be the next domino to fall. However, in the interest of getting ahead of a potential disaster, decreasing one's reliance on these identifiers—especially in IP-centric environments like CTV—seems like a good call.

Encourage sharing (with consent) via your login box

This sponsored article was contributed by Okta.

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In a cookieless world, marketers will need a thoughtful way to compel customers to go from unknown to known via proactive consent that allows them to collect zero-party data. The risk is that they'll ask too much, too fast via lengthy forms.

Lengthy forms aren't just tedious—they also sap a potential customer's enthusiasm and energy.

According to December 2020 research from WPForms, 67% of consumers **admit to abandoning forms mid-completion**.

Most marketers don't even think of the login box as a tool to woo consumers—in their eyes, it's a functional tool owned by security teams.

Many teams rarely see the login box as something that could be used to their advantage.

But what if marketers started to see the login box for what it really is: the ideal opportunity to help acquire customers, retain them, and continue to drive conversions throughout the whole journey?

This is where customer identity, or the login box, comes in by powering progressive profiling.

Most marketers don't even think of the login box as a tool to woo consumers—in their eyes, it's a functional tool owned by security teams.

Progressive profiling basically means learning about your customers slowly and with their full consent. For example, say you're a shoe seller. After a customer visits your website a few times, you can build a question into the login process that asks them to share their shoe size. This information can then be used to personalize the experience and only show shoes that are in stock in that customer's size. Research by Aritic PinPoint shows that this approach can **improve conversion rates by up to 20%**.

You need to take it slow, but not so slow that potential customers think you're not interested. You also need to show potential customers that you remember them the second time, rather than asking, "Who are you again?" In login terms, this would mean introducing biometric login that allows repeat visitors to sign in with facial recognition or their fingerprint.

Take advantage of what the login box and customer identity can do for you. It's not just an annoyance to get past, or a security checklist, but a powerful tool that can do a whole lot more for you than it's probably doing right now.

Want actionable insights to improve performance on your consumer app? Put your login experience to the test with our **free assessment**.

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Insider Intelligence Interviews

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Allyson Dietz
Senior Director of Product Marketing
TransUnion
Interviewed on March 7, 2023

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Co-Founder, CEO
IRIS.TV
Interviewed on February 23, 2023

Bharad Ramesh
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GroupM
Interviewed on March 7, 2023

Budi Tanzi
Vice President of Product
Experian Marketing Services
Interviewed on March 6, 2023

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