MAGAZINE

The Data Wars

ADVERTISING CONSUMER SOCIAL MEDIA

DANIEL NYE GRIFFITHS 30 NOV 2011

Who controls information about where consumers go online and what they do there? Take a walk in the new walled gardens of the internet.

An often-repeated statistic reveals that the human race created 5 exabytes (5 billion gigabytes) of data between the dawn of time and 2003. It's now generating the same amount every two days.

The numbers are open to question, but the broad thrust is clear: we are creating a mind-mangling amount of data. Data that can be mined for meaning and value extracted.

Customer information has always had an intrinsic and an extrinsic value. The intrinsic value lies in understanding customers better, and being able to provide better products and offers

as a result.

The extrinsic value is sometimes in selling databases of customer information – although this is generally unpopular with customers and raises privacy issues – and in increasing the accuracy and thus the value of advertising opportunities.

As the web increased in popularity and usage, brands and media companies used their web presences to gather information and recruit subscribers. However, webnative companies – companies built on and for the internet – arose and began to outperform the old guard.

The Rise of the Data Barons

The Bulgarian politician and consumer representative Meglena Kuneva called personal data "the oil of the internet." Some companies, either as an objective or consequence of their business models, have established themselves as current or potential "data barons".

Facebook is often the focus of bitter disputes around data and privacy issues. This matters because of Facebook's sheer size: it has reached 800 million members and nothing seems likely to keep it from ten figures. Recently, 500 million people logged into Facebook in the course of a single day.

The majority of Facebook's revenue now comes from advertising – in 2010 an estimated $1,86 billion, with estimates for the full year in 2011 up to $3,80 billion. The reason Facebook is raking in so much ad revenue? Because buying the ads is the only way to profit from Facebook's vast store of customer data; you specify your target audience and they deliver the ads to readers who fit the demographic profile.

Amazon has always had a clear reason to gather customer information; the more information they have on the kinds of products buyers of product x also buy, or look at, the better the personal recommendations they can offer. As the company has evolved from an internet bookstore to a hypertext hypermarket and now to selling devices on which to consume media from its own data centres, its needs have grown. Amazon now adds enough server capacity every day to contain the global infrastructure created in the first five

years of its life. The amount of customer data it generates has grown apace.

With the introduction of the Kindle Fire opens an interesting new element to the way data flows through Amazon's servers. To compensate for the slow processor of this media-focused tablet, Amazon plans to use its own cloud computing resources to cut up the meat of websites before serving them to the tablet – compressing content to an appropriate quality level.

In practical terms, the page request will be made by Amazon's cloud and then routed to the device from there, meaning that even if the data is aggregated and stored anonymously it could theoretically be used to improve associations and even to deliver targeted advertising – for Amazon products or third parties – on the page that arrives on the user's screen. US Congressman Edward Markey has written to Amazon asking for clarification of what information the Fire's browser will collect and how it will be used. As is often the case, there is a balance between delivering an improved service and maintaining privacy and confidentiality.

When it comes to owning the screen, it's impossible to miss Apple. In June 2011, the iTunes store had 225 million accounts with credit cards attached. In common with Amazon and Facebook, a key element of these accounts is that they are providing personally identifiable information, tied not just to music purchases but phone apps, movies and increasingly media through the App Store.

With the Newsstand service in iOS 5, Apple has raised its game, aggregating magazines into one place rather than hosting multiple apps, increasing the convenience for browsers – and, the argument goes, the sales for content providers. But there is a price to pay – not just a 30% cut, but the loss of customer data, which without an option click is kept in their Apple account. A cynic might point out that this makes the publisher a content provider, with Apple owning the relationship.

What Happens Next?

Unusual situations lead to strange bedfellows. Google, which until it took steps to hamper searches for file sharing at the start of this year was regularly attacked for facilitating the death of the traditional media, has emerged as a possible ally for publishers.

In France, several news publishers have united to sell their iPad and iPhone content through epresse.fr, an app outside Apple's Newsstand. Obviously it will be left out of what will presumably be the first port of call for magazines on iOS 5 devices, and from the benefits of tight integration with the OS . Instead they plan to expand the platform to other devices and to the web.

The web could, ultimately, play a larger role. "Web apps" – mobile apps that route out to mobile websites instead of working natively on the phone or tablet – are often derided for their lack of offline function and one-size-fits-all structure. However, HTML5 – still in development, but supported piecemeal on mobile devices – adds several elements to make the experience more "app-like", including, vitally, offline storage. The Financial Times, with the advantage of a well-known brand, is a notable early adopter, directing readers to app.ft.com rather than the Apple App Store and thus avoiding the App Store's regulations.

Loyalty Programmes

Apps, native or otherwise, are not the only option for companies looking for enhanced consumer understanding, of course.

Traditional consortium loyalty schemes such as Nectar have been doing many of the same things as Facebook and the like. Based in Britain, Nectar cards can be used to earn and redeem loyalty points for purchases across a number of high street and online retailers, providing material for profiled data analysis.

The sample numbers may not be as great on a global scale, but for brands looking for analysis in specific target regions this may be a benefit. Loyalty programmes offer a clear benefit to consumers in exchange for information – just as Facebook effectively rewards users for their data by providing a social network.

Ultimately, brands and media producers in the physical world need to deduce what will persuade customers to share their data, match the methods of the technology platforms and make smart alliances to approach their scale.

The chances of replacing or forcing open tech platforms do not look great, ultimately. Once established, a dominant player like Facebook (in social networks) or Apple (in mobile media) can usually only be swayed by concerted, unified industry action or by legislation – which will usually seek to limit rather than facilitate the sharing of customer data. There are, however, some advantages to this situation.

The technology and media sectors are full of “frenemies” – companies that are simultaneously rivals and partners. The frenemy model might apply to these data aggregators as well. Their position at the head of the river may mean that they collect huge amounts of data, but it also mean that they have the resources to store, manage and analyse it to the point where its use for targeting on behalf of advertisers becomes a salable asset.

The walled gardens, in this light, are more like the gardens of stately homes than feudal castles. You have to pay to get access, and you cannot take anything away, but, nonetheless, you are glad that someone else is pruning the hedges.

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