

The Era Of Second-Party Data Is Here

Table Of Contents

Executive Summary	1
The State Of Second-Party Data Sharing.....	2
Second-Party Data Will Play An Integral Role In Marketing Strategies	3
The Second-Party Data Sharing Payoff.....	4
Even The Most Proficient Practitioners Face Execution Challenges	5
Advertisers And Marketers Will Embrace A Variety of Approaches To Facilitate Data Sharing.....	6
Key Recommendations	7
Appendix A: Methodology	8
Appendix B: Supplemental Material	8
Appendix C: Endnotes.....	9

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Executive Summary

In the age of the customer, successful advertisers and marketers invest time, effort, and money in learning as much as possible about their consumers in order to build a sustainable relationship that delivers results immediately as well as over time.¹ That accumulation of knowledge, which includes habits and preferences as well as demographics, is especially challenging to develop as consumer media habits evolve, adoption of mobile devices continues to rise, and social networks have an impact on traditional marketing strategies. It is formed from first-party data, the sort of data that is the result of a one-to-one relationship between a company and its customers. When first-party data sets are too small to scale, second-party data deals with complementary retailers, brands, publishers, or marketers can extend and enhance reach. They can also help move prospects through the customer life cycle, from consideration to purchase and beyond to loyalty and advocacy. In the age of the customer, that's the biggest win of all.

In May 2016, ownerIQ commissioned Forrester Consulting to evaluate second-party data sharing practices among retail and durable goods advertisers and marketers. To explore this trend, Forrester developed a hypothesis testing the assertion that the sharing of second-party data is poised to grow over the coming years. Retailers and brands alike can realize benefits from sharing robust first-party cooked audiences, including more effective sell-through campaigns, greater insights into the customer path to purchase, revenue generation, and economically beneficial partnerships with a variety of companies.

Second-party data sharing is when a retailer, brand, publisher, or marketer gains transparent access to the website audience data of another retailer, brand, publisher, or marketer for marketing purposes — to their mutual benefit.

In conducting an in-depth online survey with 100 advertising and marketing leaders at retail and durable goods organizations in the US, Forrester found that second-party data will play an increasing role in marketing strategies over the coming years as marketers seek to gain greater customer insights, reach more potential customers, improve the efficiencies of their campaigns, and improve sell-through.

KEY FINDINGS

Forrester's study yielded five key findings:

- › **It's not a question of if, but when.** Second-party data is coming into its own. While just about half of retailers and durable goods companies currently have a second-party data strategy, the practice will be pervasive within the next three to five years.

Ninety-six percent of advertisers and marketers with a second-party data strategy today consider it valuable or very valuable to their overall marketing strategy.

- › **Use of third-party data will decline.** Third-party data provides marketers with customer insights, but the data is widely available to competitors and lacks the transparency of second-party data. Today, second- and third-party data is used for roughly the same percentage of programmatic advertising campaigns. However, marketers predict that they will increase their use of second-party data — at the expense of third-party data — within the next five years.
- › **Second-party data sharing moves the needle.** Marketers are turning to second-party data for a variety of potential benefits, including an improved ability to identify and target prospects, grow sales, increase product sell-through, and execute more effective campaigns. Advertisers and marketers prioritized benefits somewhat differently, with retail professionals identifying sell-through as the No. 1 benefit, and brands valuing campaign efficiency above all other benefits.
- › **Working directly with partners is challenging.** Those marketers working with partners directly on second-party data deals reported a number of challenges. Technical issues and data concerns — like data security, data transparency, audience duplication, and incompatible platforms — are considerable obstacles to realizing significant value and outcomes from second-party data partnerships.
- › **Marketers will turn to third parties to broker future deals.** Direct partnerships will continue to play a role in second-party data strategies; however, study results show that advertisers and marketers will look to their data management platform providers (DMPs), agencies, and independent third-party providers for future data sharing deals.

The State Of Second-Party Data Sharing

In the age of the customer, data is the lifeblood of every marketer. Today's consumers are most responsive to targeted, relevant advertising based upon their preferences and needs. In order to meet this need, companies are dedicating significant budget and resources to collecting website audience data and building out robust customer profiles. This first-party data, while valuable and insightful, can be limited in scale. Increasingly, advertisers and marketers are recognizing that sharing second-party data — that is, gaining transparent access to the first-party data of another brand — can yield significant value. Forrester surveys of North American and European technology decision-makers revealed the percentage of these leaders placing importance on partner data increased from 30% to 47% between 2012 and 2014.² Marketers recognize that sharing second-party data can provide:

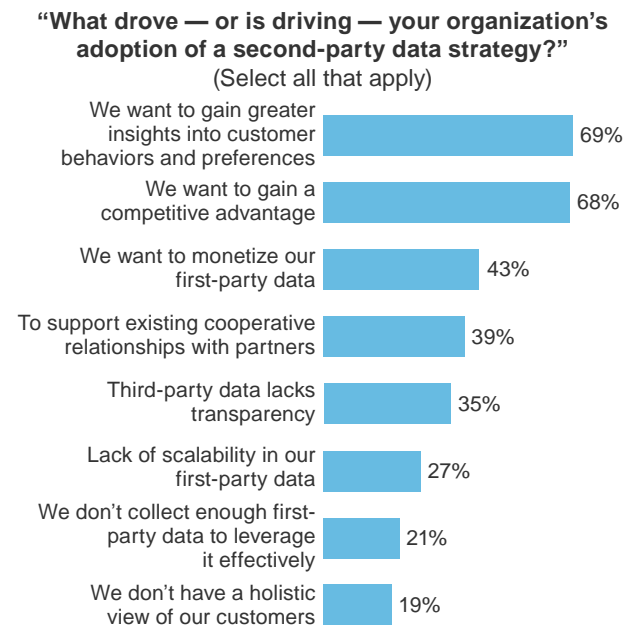
- › **Greater scale.** For many advertising and marketing leaders, relying solely on their own first-party data is not sufficient for their marketing needs. Twenty-seven percent of those surveyed are turning to second-party data due to a lack of scalability in their own first-party data; 21% said they don't collect enough first-party data to leverage it effectively (see Figure 1).

“[Second-party data] allows me to potentially reach universes I haven't been able to reach before and reach at a level that certainly old-school third-party [data] would never have allowed me to get to.”

— Digital marketing director at a retail firm

- › **Improved insights into customer wants and needs.** Gaining greater insights into customer behaviors and preferences was the No. 1 driver of second-party data sharing strategy adoption, cited by 69% of respondents. As the VP of digital marketing at a retailer told us, “We definitely gain customer insights and data [through

FIGURE 1
Factors Driving Second-Party Data Strategies



Base: 100 advertising and marketing leaders at retail or durable consumer goods organizations with 500 or more employees

Source: A commissioned study conducted by Forrester Consulting on behalf of ownerIQ, September 2016

second-party data partnerships]. . . . We gain net-new data.”

- › **More transparency than third-party data.** Third-party data — that is, syndicated data that is publically available for anyone to buy — can provide consumer insights, but these insights are available to the entire market, with no clear view into data provenance. Thirty-five percent of those surveyed pointed to a lack of transparency in third-party data as a factor in adopting a second-party data strategy.
- › **A competitive advantage.** Second-party data sharing can also help advertisers and marketers get a leg up on the competition by providing the means to execute targeted campaigns to highly sought-after audiences. Instead of a blanket campaign to consumers who fit in a general category or demographic, ad and marketing professionals can identify desirable audience segments based on behaviors and preferences captured on a partner's website and tailor campaigns accordingly, increasing the likelihood for sell-through. Sixty-eight

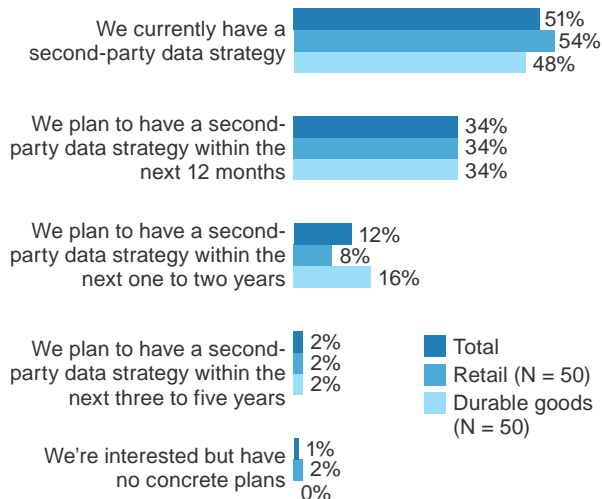
percent reported they look to second-party data to gain a competitive advantage.

Second-Party Data Will Play An Integral Role In Marketing Strategies

Interest in second-party data will only increase in the coming years. Our survey revealed that roughly half of organizations currently have a second-party data strategy, with another 34% planning to roll out their strategy within the next 12 months and 48% over the next five years (see Figure 2). While retailers have a bit of a head start on their second-party data strategies, durable goods companies will catch up over the next two years.

FIGURE 2
Second-Party Data Strategies Are On The Rise

“To what extent is your organization integrating a second-party data strategy into its overall marketing strategy?”



Base: 100 advertising and marketing leaders at retail or durable consumer goods organizations with 500 or more employees

Source: A commissioned study conducted by Forrester Consulting on behalf of ownerIQ, September 2016

SECOND-PARTY DATA WILL TAKE A BIGGER PIECE OF THE PROGRAMMATIC ADVERTISING PIE

Second-party data will also play an increasing role in programmatic advertising strategies. Advertisers and marketers are currently tapping into first-party data for 41% of their programmatic campaigns on average, utilizing

second-party (24%) and third-party data (22%) relatively equally. The professionals we surveyed predict that third-party data will take a back seat to second-party data in five years, estimating that the former will account for just 19% of campaigns compared with 29% for second-party data. And while retailers will hold relatively steady in their use of second-party data as a percentage of campaigns, second-party data will play a more significant role at durable goods organizations, with ad and marketing pros at those companies predicting an increase from 23% to 30% of programmatic campaigns in five years. Particularly for those durable goods firms that lack direct channels, second-party data will play a critical role. A marketing leader at a durable goods company told us:

“Because we no longer have a direct eCommerce channel . . . we’re very heavily involved with our retail partners’ channels now, which means that we’ve also started pursuing a lot of data sharing activity. We’ve been developing [that] over the past couple of years and more intensely over the past year.”

— Senior manager, marketing & CRM at a durable goods company

SECOND-PARTY DATA SUPPORTS KEY MARKETING INITIATIVES

Second-party data is — and will increasingly be — a valuable marketing asset for retailers and durable goods companies alike. Indeed, 96% of those with a second-party data strategy today consider it valuable or very valuable to their overall marketing strategy, and 98% are likely or very likely to participate in second-party data partnerships in the future.

Advertisers and marketers are turning to second-party data sharing to enrich customer profiles, enable identification of target audiences, and improve their ability to personalize communications and offers. And while there was commonality between retail and durable goods professionals in regard to the top initiatives supported by second-party data, retailers were more likely to leverage second-party data for audience segmentation and personalization efforts, while durable goods organizations were more apt to use second-party to reach audiences at scale (see Figure 3). As one retailer said:

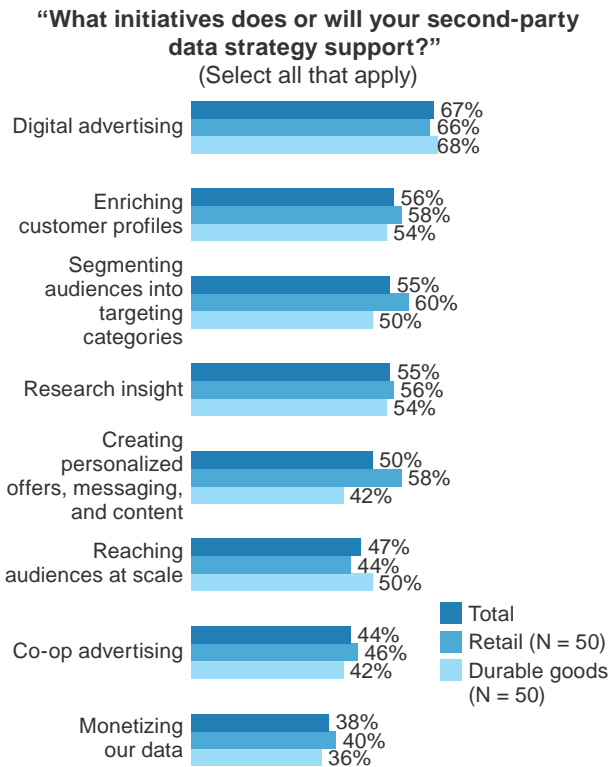
“As you leverage personalization at many, many levels, depending on the partnerships and second party, you can really drill down and get sophisticated, and — dare I say — clued in on what you’re doing there.”

— Digital marketing director at a retail company

The Second-Party Data Sharing Payoff

It should come as no surprise that ad and marketing leaders are bullish on second-party data considering the potential benefits. The upside to second-party data sharing includes an improved ability to identify and target prospects, grow sales, increase product sell-through, and execute more effective campaigns. Retailers and durable goods companies differed slightly, however, on prioritizing these benefits (see Figure 4):

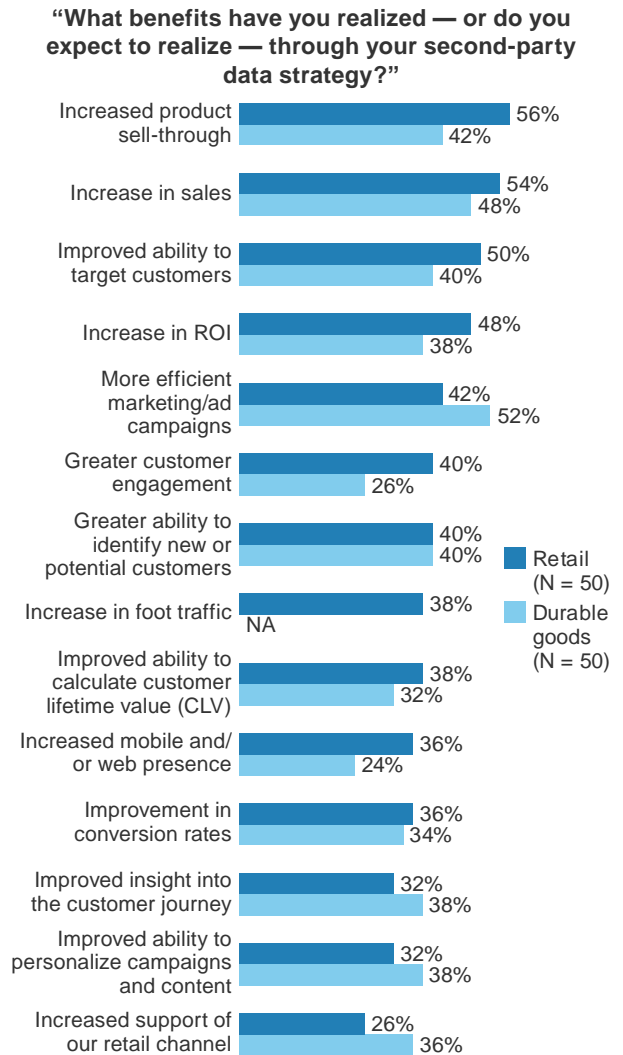
FIGURE 3
Marketing Initiatives Supported By Second-Party Data



Base: 100 advertising and marketing leaders at retail or durable consumer goods organizations with 500 or more employees

Source: A commissioned study conducted by Forrester Consulting on behalf of ownerIQ, September 2016

FIGURE 4
The Benefits Of Second-Party Data Sharing



Base: 100 advertising and marketing leaders at retail or durable consumer goods organizations with 500 or more employees

Source: A commissioned study conducted by Forrester Consulting on behalf of ownerIQ, September 2016

➤ **Sell-through is No. 1 for retailers.** Fifty-six percent of retailers identified an increase in product sell-through as the top benefit of second-party data sharing, followed closely by an increase in sales (54%), an improved ability to target customers (50%), an increase in ROI (48%), and more efficient marketing or ad campaigns (42%).

- › **Brands value campaign efficiency.** Increased campaign efficiency was the No. 1 benefit for durable goods organizations, cited by 52%. Improved sales (48%), increased sell-through (42%), and greater ability to target (40%) and identify new or potential customers (40%) rounded out the top five benefits for brand advertisers and marketers.

Even The Most Proficient Practitioners Face Execution Challenges

As evidenced in our study, 49% of those companies surveyed are still in the process of defining and rolling out their second-party data strategies. But that doesn't necessarily mean the 51% that have a strategy in place aren't experiencing some growing pains. The majority of these companies — 59% — work directly with partners, costing them time, effort, and resources. The top challenges for those sharing second-party data directly with partners include:

- › **Audience duplication.** Reaching audiences at scale and identifying new or potential customers are among advertisers' and marketers' primary goals when entering into second-party data partnerships. But if there is significant duplication in audiences, the value of that partnership is greatly diminished. Forty-seven percent found there was overlap between their own and their partners' audiences, resulting in inefficiencies (see Figure 5).
- › **Issues with data security.** Customer data is among an organization's most valuable assets, so making sure that data is secure when shared with partners should be paramount. Yet 40% reported they were unable to ensure the privacy and security of their data. As a retail digital marketing director told us: "There are significant challenges when directly working with a given manufacturer. You get into a lot of conversations with lawyers and privacy folks, which is not a good use of my media professionals and the team."
- › **Working on different platforms.** When companies engaged in a second-party data sharing project are working on two different data management platforms, sharing and integrating data can be a challenge, as cited by 37% of respondents sharing data directly with partners. In some cases, different DMPs can stall a second-party data sharing deal altogether. "[Being on the same

FIGURE 5
The Challenge Of Sharing Data Directly With Partners



Base: 30 advertising and marketing leaders at retail or durable consumer goods organizations with a second-party data strategy and 500 or more employees sharing data directly with partners

Source: A commissioned study conducted by Forrester Consulting on behalf of ownerIQ, September 2016

platform] makes a huge difference,” according to the marketing and CRM manager at a durable goods firm. “It was one of the main reasons we were prevented from working with some of our partners for a while, because they were on one platform and we were on another.”

- › **Prolonged processes.** All of these issues — data inefficiencies, data security, and lack of a single DMP — can contribute to lengthy timelines. Thirty-seven percent of advertisers and marketers working directly with partners complained that the process took too long to execute. This is less than ideal when you're trying to pull the trigger on a time-sensitive programmatic campaign.

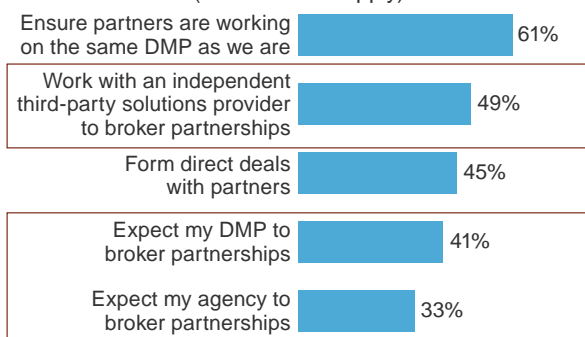
Advertisers And Marketers Will Embrace A Variety of Approaches To Facilitate Data Sharing

Direct second-party data partnerships will continue to play a role in programmatic campaigns in the coming years (see Figure 6). However, technical issues and data concerns — like data security, data transparency, audience duplication, and incompatible platforms — will need to be resolved in order to realize significant value and outcomes.

FIGURE 6
Marketers Will Turn To Independent Third-Party Providers

“Thinking about future second-party data partnerships, what would you change about the process?”

(Select all that apply)



Just 10% of those with a second-party data strategy had reported using an independent third-party provider to broker existing partnerships.

Base: 51 advertising and marketing leaders at retail or durable consumer goods organizations with a second-party data strategy and 500 or more employees

Source: A commissioned study conducted by Forrester Consulting on behalf of ownerIQ, September 2016

The good news is that advertising and marketing leaders recognize that there are a number of sophisticated options available in the current landscape. While many advertisers and marketers will expect their DMP (41%) or agency (33%) to broker partnerships, 49% are interested in working with independent third-party solutions providers, thereby significantly broadening their potential partners. Only 10% had given that option a trial as of the date of this study, despite the fact that third-party solutions providers can both help find and facilitate the right partnerships, thereby eliminating the friction that arises from working in direct relationships.

“[Working with third-party providers] allows our trade customers to access our audience . . . and gives them the opportunity to access somebody who's actually in the market. They're not wasting their marketing and advertising dollars blanketing the web with banner ads that maybe aren't actually accessing the audience they're even interested in.”

— Digital marketing director at a retail firm

Smart advertisers and marketers put data at the center of their strategies for reaching and connecting with their customers and prospects today, and will do so even more over the next three to five years as they refine their second-party data strategies. Second-party data sharing partnerships can yield significant value — including greater scale, improved customer insights, increased sell-through, and more efficient campaigns — but technical issues and data concerns can be obstacles to success. Moreover, the process of identifying potential data partners; recruiting them; negotiating compensation, terms, and conditions; launching a campaign; and reporting value can be cumbersome. Advertising and marketing pros will seek to overcome these issues as they strive to meet their customers' expectation of relevance, expanding their strategies to include a variety of data sharing options. Independent third-party solutions providers will play an increasing role in second-party data strategies, making it easier for advertisers and marketers to enter into — and execute — strategic partnerships with parties beyond their own ecosystem.

Key Recommendations

In the age of the customer and a highly competitive business environment, smart advertisers and marketers understand that their first-party data — and the second-party data that results from partnering with a complementary retailer, brand, publisher, or marketer — can be a significant competitive advantage. The insights derived from second-party data partnerships can power relevant messaging that propels customers toward the point of purchase and has an impact on the bottom line. Smart ad and marketing pros will move quickly to:

- › **Aggregate all the sources of first-party data within their organization.** The larger the organization, the more likely that it is divided up into silos that aren't incentivized to cooperate with each other. Smart advertisers and marketers will identify the disparate first-party data collection practices within their company and strive to bring all stakeholders on board with a unified, organizationwide first-party data strategy.
- › **Cast a wide net for potential partners.** This study focused on the second-party data sharing strategies of retailers and durable goods companies. But there are a host of other potential partners with rich data, including credit card and other financial services, healthcare, travel, and telecom organizations. Together you can identify segments of customers and prospects and move your businesses forward.
- › **Use attribution to control for potential audience duplication.** Attribution solutions will allow advertisers and marketers engaged in second-party data projects to see where and when customers and prospects, identified through the project, were touched. This will enable them to truly understand the value that the second-party data brought to the overall campaign.
- › **Maintain data privacy through clear and concise terms and conditions (T&Cs).** Any fears about compromised data privacy can be managed through clear and concise T&Cs that clearly describe usage conditions and provide for a negotiation/permission process.
- › **Remove the friction by consulting with third-party solutions providers.** Direct second-party data projects between two partners can be stymied by unnecessary friction caused by incompatible technology, privacy concerns, legalities, and a host of other issues, making the process very time consuming and frustrating for all involved. Independent third-party solutions providers, focused exclusively on delivering positive outcomes to their clients, are experienced at removing that friction and speeding up the process, and they can be a valuable resource in executing second-party data deals.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 50 retail and 50 durable goods organizations in the US as well as four qualitative interviews to evaluate second-party data sharing practices, strategies, and challenges. Survey participants included advertising and marketing leaders at midsize to large enterprises (500 or more employees) with a customer-facing online presence that are presently, considering, or interested in sharing data on cookie audiences with partners. Respondents were offered a small incentive as a thank you for time spent on the survey and in interviews. The study began in July 2016 and was completed in September 2016.

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

“Predictions 2016: Media’s Unbundling Accelerates,” Forrester Research, Inc., November 13, 2015

“The Forrester Wave™: Data Management Platforms, Q4 2015,” Forrester Research, Inc., November 10, 2015

“Content Marketers Share Data With Other Brands To Close The Loop From Interest To Sales,” Forrester Research, Inc., November 24, 2014

Appendix C: Endnotes

¹ Forrester defines the age of the customer as a 20-year business cycle in which the most successful enterprises will reinvent themselves to systematically understand and serve increasingly powerful customers.

² Source: "Content Marketers Share Data With Other Brands To Close The Loop From Interest To Sales," Forrester Research, Inc., November 24, 2014.