MADISON AVENUE MEETS SILICON VALLEY AND SILICON ALLEY
BUILDING COLLABORATION BETWEEN CREATIVITY AND TECHNOLOGY

INSIDE:
FOREWORD BY RON CONWAY, SV ANGEL, AND MICHAEL LEBOWITZ, BIG SPACESHIP

AND CONTRIBUTIONS FROM TOP DIGITAL LEADERS

Michael Abbott, Kleiner Perkins Caufield & Byers
Tom Bedecarré, AKQA
Joanne Bradford, Pinterest
Wendy Clark, Coca-Cola North America
Greg Coleman, BuzzFeed
Beth Comstock, GE Business Innovations
Susan Credle, FCB
Quentin George, Unbound
Sophie Kelly, The Barbarian Group
Nick Law, R/GA
David Lawenda, Facebook
Mike Lazerow, Salesforce
Ben Lerer, Lerer Hippeau Ventures and Thrillist Media Group
Mike McCue, Flipboard
Bryan Wiener, 360i
FOREWORD: AN INDUSTRY CALL TO ACTION

Bridging the Gap Between Creativity and Technology

It's time to build a more collaborative exchange between technology companies, agencies, and advertisers to create better and more sustainable consumer experiences.

By Ron Conway and Michael Lebowitz

Advertisers and technologists have a multi-billion opportunity to create better, more engaging, and more useful marketing experiences for consumers in today’s fragmented, technology-driven media market. According to the IAB Trends in Digital Media Report (October 2014), despite the growth in digital usage, a $30 billion gap in spending still exists compared with time spent on digital media.

Technologists have been advancing media platforms to create content and delivery systems designed for today’s interactive and on-demand consumers, yet marketing messages that provide corresponding value and utility have lagged.

As leaders in technology and digital advertising, we are on point to help direct a new paradigm.

Our industries are dependent on each other and we need to understand the organizational attributes that shape our respective businesses so that we can keep pace with and grow the market. Yes, startups are more aware than ever of design, user experience, and emotion when building their products. And yes, Madison Avenue is becoming increasingly data-driven about its approach. But we need to do more.

It is with these challenges and opportunities in mind that we are working with IAB to support an initiative that drives collaboration across the two intersecting industries of technology and advertising.

Conversations began three years ago and led to three immersive summits—one in 2012 and two in 2014—that gathered forward-thinking leaders from the technology, agency, venture capital, publishing, and marketing communities. Over the course of several days of intellectual exchanges and energetic debates, participants helped identify and articulate the cultures, languages, structures, business goals, and financial models that separately define their organizations. In order to improve cross collaboration, they shared ideas and strategies for building deeper and more direct connections between the groups, and for creating better consumer experiences. The insights from these summits are captured in this paper, published by IAB, called “Madison Avenue Meets Silicon Valley and Silicon Alley: Building Collaboration Between Creativity and Technology.”

The summits and this paper are just the start toward achieving a long-term industry vision that produces better solutions and experiences to move the world further—whether in commerce, entertainment, or news.
Let’s champion new ways to drive collaboration across technology and advertising. Let’s address the barriers that inhibit better products, better consumer experiences, and better business results. Let’s create a richer, more useful exchange. We hope that you’ll join us.

Ron Conway is the Founder of SV Angel, a premiere San Francisco-based angel investment firm, which helps startup companies with business development, financing, M&A, and other strategic advice. Michael Lebowitz is the Founder and CEO of Big Spaceship, an award-winning digital agency based in Brooklyn, and serves as IAB Agency Advisory Board Chairman.
“Today, there is a really special opportunity to build new kinds of media businesses that are using the tools available in the digital world. With social and publishing tools available to anybody, it’s a new world.”

– Ben Lerer, Managing Partner, Lerer Hippeau Ventures, and Co-Founder and Chief Executive Officer, Thrillist Media Group

“IAB set out to address these issues and close the gap by taking its Agency Advisory Board to Silicon Valley, in 2012 and 2014, and then to Silicon Alley in New York City in 2014, so that these two industries, technology and advertising, co-reliant and consumer-facing, could open a dialogue that could lead to better understanding between technology companies and ad agencies—and better experiences for consumers.

“One of the biggest benefits IAB brings to the industry is that we’re really the only organization that connects the dots among brands and marketers, publishers, agencies, and technology companies and looks at them all through the lens of technology and creativity.”

– Randall Rothenberg, President and Chief Executive Officer, IAB

INTRODUCTION

It’s been more than two decades since digital technology upended the media landscape. Yet Madison Avenue and Silicon Valley still remain largely out of sync in this fragmented media marketplace.

“You have programmatic colliding with mobile and social, and everyone is a publisher of social media,” says Tom Bedecarré, Co-Founder and Chairman of AKQA, one of the new breed of advertising agencies specializing in creating digital services and products. “Media habits are changing and social media, mobile, and big data are dramatically affecting Madison Avenue. You’ve got a lot going on all at the same time and everyone is converging at where these things intersect. There’s been a lot of progress. Things are better than they were, but there is still a big gap.”

Tech startups want to maintain what’s unique about their products, and advertisers want media properties that reach large audiences and allow them to scale their messages, without having to invest in customizing the creative and content again and again.

IAB set out to address these issues and close the gap by taking its Agency Advisory Board to Silicon Valley, in 2012 and 2014, and then to Silicon Alley in New York City in 2014, so that these two industries, technology and advertising, co-reliant and consumer-facing, could open a dialogue that could lead to better understanding between technology companies and ad agencies—and better experiences for consumers.
In Silicon Valley and Silicon Alley, venture capital investors look to a different kind of scale than Madison Avenue traditionally has sought. Tech firms and their funders look to create proprietary platforms that can generate a big user base that looks to be sustainable. Angel investors are willing to back a startup through seed and early investing stages to help it prove that it’s “the next big thing.” After the initial, private funding rounds and before potentially going to a public offering, other monetization sources—most usually ad revenue—are sought so businesses can prove their sustainability.

The benefits to tech companies of speaking “the right language” to the creative world of Madison Avenue are compelling in terms of potential investments. “There’s this weird hybrid of publications and networks, programs and magazines,” says Susan Credle, now Global Chief Creative Officer, FCB, and formerly Chief Creative Officer, Leo Burnett. “But why should I be here with one tech platform versus someone else’s? I don’t know if they’re marketing themselves the right way. If I can understand their ecosystem, then I know where my brands need to be.”

The ambition of the tours has been to pave a path to greater business results for those at the forefront of technology innovation and for those that rely on today’s interactive media ecosystem to reach their consumers.

A SURGE IN CONSUMER TIME SPENT ON DIGITAL MEDIA

As the conversations unfolded at the Silicon Valley and Silicon Alley tours, it became clear that tech businesses want Madison Avenue to be more fluid in today’s fast-paced and fragmented media world. At the same time, ad agencies and their clients want Silicon Valley and Silicon Alley to become better versed in how advertisers view consumer communications and creativity in messaging.

“The more that technology companies and agencies can work together, the more they can figure out how to market in a way that works for the customer and pushes the customer to the center,” says Salesforce Chief Strategy Officer Mike Lazerow, who has investments in 17 startups. “The power has shifted from company to customer, and agencies are forced to play in areas that they didn’t care about before—customer service, technology deployment, app development, and social networks.”

The need to bring the parties together is made particularly pressing by the fact that consumers are spending the majority of their time in digital media and fragmenting their media consumption. Gartner, Inc. forecasts that 4.9 billion devices will be connected to the internet globally in 2015, up 30 percent from 2014, and will reach 25 billion by 2020.

The challenge and opportunity is how agencies and brands reach consumers in this new world, and how tech companies communicate how their platforms are distinct places for marketers’ messages, especially when more and more inventory is bought and sold programmatically—that is, through automated systems.
Technology brands that want to monetize their businesses with ad revenue need Madison Avenue—and the stakes are high. In 2014, overall internet ad revenue topped $49.5 billion, up $6.7 billion (15.6 percent) from 2013, the fifth consecutive year of double-digit growth for the industry, according to the IAB Internet Advertising Revenue Report prepared by PwC U.S.

2014 Shows Record Revenues
Annual Revenue 2005-2014 in billions

Agencies and brands also need new media to reach consumers—especially on the ever-more important mobile platforms. Globally, the installed base of mobile devices is projected to be nearly three billion by the end of 2015, nearly double the installed base in 2013 (IAB Growth Trends in Digital Media Report, October 2014).

In the U.S., more than 60 percent of consumers’ digital media time is spent on mobile devices, and mobile device penetration in U.S. households reached 75 percent for the three months ended December 2014, according to data from comScore. Meanwhile, mobile advertising in the U.S. brought in $12.5 billion during 2014, a 76 percent boost from the prior year total of $7.1 billion.

This surge in digital usage continues to spur demand for even more content and utility, and startups try to meet the demand with new media platforms, which bring the possibility of more custom ad formats.

Despite the growth in consumers’ digital usage, a gap in advertising spend compared with time spent on media still exists. According to the October 2014 IAB Growth Trends in Digital Media Report, consumers spend 38 percent of their media consumption time on TV, which still gets 45 percent of ad budgets. Meanwhile, average U.S. adults spend about 25 percent of their time on the internet and 20 percent of their time on mobile devices, while advertisers allocate 22 percent and 4 percent, respectively, to the mediums. The disparity represents about a $30 billion opportunity.

“Rather than thinking of advertising as something that interrupts, impedes, or gets in the way of technology, marketers should support and engage consumers with technology.”

– David Lawenda, Head of U.S. Global Marketing Solutions, Facebook

“It’s not changing slowly—it’s happening right now. Millennials are spending way more of their TV time on their mobile devices and social than ever before. That transition means we need to center content and campaigns on mobile experiences that can follow a consumer where they spend their time: on mobile and social.”

– Greg Coleman, President and Chief Executive Officer, BuzzFeed
Consumer Usage Is Ahead of Mobile Ad Spend
% of Time Spent in Media vs. % of Advertising Spending, USA 2013


Agencies contend that if they could collaborate with tech firms at the front end of the process, they could shape more thoughtful and engaging formats and capture more of their clients’ investments in digital media. Tech companies respond that ads should always be consistent with and improve upon the user experience.

“If we all start with the same box, you make your box more valuable through creativity,” Credle says. “There’s enough to go around, but if we sit around and say we’re in a scarcity market, we’ll eat each other alive. I think there’s room for everybody.”

When new marketing opportunities like native advertising arise, they introduce even more complexity into the buying and selling process. “There’s an interesting tension because now you have to standardize,” says Mike McCue, Chief Executive Officer, Flipboard. “The whole point of native is to break away from that standardization. Advertising and big agencies want to buy on mass scale, but publishers value their audience and don’t want to be treated like everything else. It’s a fascinating tension.”

ORGANIZATIONAL, CULTURAL & FINANCIAL MODEL CHALLENGES

Madison Avenue and Silicon Valley and Silicon Alley businesses are inherently different organizationally—and culturally.

Tech’s financial model allows for the development of ideas and prototypes in concert with a constant infusion of capital. Failing and failing fast is an accepted practice in the tech world because investors can offset investments in a failed entity if the mix of investments includes the next big thing.
The business model of Madison Avenue is markedly different. Agencies charge billable hours for developing creative and fees from ad placement based on a combination of a percentage of the media buy, along with performance metrics. Technology investment as a cost of doing business is a fractional portion of budgets and a majority of agencies have never had to account for the cost of R&D in-house.

The various operating platforms—converging traditional and digital formats such as video and TV, and dynamic rather than static ads—require more tech skills than Madison Avenue typically maintains. With advertising becoming as much science as art, agency teams can lack the skills to design and develop the software required for breakthrough creative ideas.

Marketers and agencies also are seeing increased demands that they become flexible in adjusting to fluid measurement standards. These include new metrics like those detailed in the IAB Defining and Measuring Digital Ad Engagement in a Cross-Platform World study (published February 2014) such as gaze time, total interactions, and interaction rate. Marketers and agencies also need to adopt internal cultures adept at tackling multiple, simultaneous opportunities for interacting with their consumers like never before.

“If you’re buying a new tech, you want to create the best opportunity to extract operating income from advertising,” says Quentin George, Co-Founder and Principal, Unbound. “At the same time, creative wants the best experience to engage consumers. The problem is that the nature of distribution changed. APIs change every six weeks, and at the same time, creative people say they don’t have the canvas to express the ideas. Formats need to be consistent so they can be resalable, but we can decide together what the size and format can be.”

Moreover, Madison Avenue teams tend to be more siloed than a tech team’s flat and dynamic structure, which usually combines multiple disciplines. The cultural forces leave the creative standards of Madison Avenue lagging the tech world, which puts audience-building and experience first.

“The cultural differences are enormous,” says Sophie Kelly, Chief Executive Officer, The Barbarian Group. “You’re talking about two different world views. Madison Avenue, at its best—at its most successful—is about being associated or involved in beautiful or famous work that makes money. Silicon Valley, on the other hand, has a very counterculture mindset overlaid with a rational engineer problem-solution approach to life. At its best—at its most successful—people want to make useful things that positively impact the world and make money doing it.”

Beyond the cultural, organizational, and business model differences, financing represents another fundamental disparity in how the sectors operate as well.

In 2014, venture capitalists invested $48.3 billion (a 61 percent increase over 2013) across 4,356 deals, according to the MoneyTree Report by PricewaterhouseCoopers LLP and the National Venture Capital Association, based on data from Thomson Reuters. Internet-specific companies captured $11.9 billion in 2014, marking the highest level of internet-specific investments since 2000.
While some brands and agencies have begun to explore emerging technology through small acquisitions or internal hubs, examples are scarce.

Coca-Cola and GE, meanwhile, have shown that even long-established and well-known brands can embrace newness as they foster tech innovation through their own venture capital investments. This allows new product development and marketing to be better aligned.

“We’re a marketing company but may not have the wisdom and experience of technology,” says Wendy Clark, President, Sparkling Brands & Strategic Marketing, Coca-Cola North America. “But when you put the two together and bring entrepreneurial thinking inside Coke, you draw experience from a nascent company that is immeasurably beneficial. It gives tech firms insights and experiences into customers and brands. It also informs decisions we make and provides us with instructional failures.”

As platforms such as Facebook expand more into the ad tech sector, especially in mobile and video, it’s an indicator of dynamic changes in the industry.

Sheryl Sandberg, Chief Operating Officer, Facebook, addressed this directly during an earnings call in 2014: “Consumers are shifting quickly to mobile and the advertising industry is not keeping up.”
THE COLLABORATIVE PAYOFF

Despite the challenges, those who have overcome cultural differences and come to understand each other have seen positive results. 

"More and more, each is borrowing from the other—Madison Avenue is ‘borrowing’ technology to reach customers in a more impactful way and Silicon Valley is ‘borrowing’ some of Madison Avenue’s techniques to filter out the noise and get better results," says Beth Comstock, President and Chief Executive Officer, GE Business Innovations, and Chief Marketing Officer, GE. “The successful businesses of the future will use a little bit of both approaches. Innovation will be driven by a combination of efforts, not one way versus another.”

Flipboard is a good example of this. With 50 million monthly active users since it launched in 2010, it began with advertising as the core of its monetization strategy. The concept was to deliver glossy, bold, beautiful magazine-style graphics and photography to the digital space. The social news magazine, which started as a mobile app but recently launched on the web, put advertising at the front end of development and leaned on big name tech and ad leaders—the late Steve Jobs and Alan Cohen, then Chief Executive Officer of media giant OMD-USA—for input. The effort helped Flipboard land Pepsi, Lexus, and Levi’s as some of its first advertisers and shape the high-end format of ads that resemble fashion magazines.

“I wanted to take a step back and understand how traditional publishing has worked, and apply technology in a way that can be helpful,” Flipboard’s McCue says. “You have to look at design and how advertising is integrated into the content in a better way.”

Users flip up to 7 billion pages, including brand pages, per month, and the company has created 75 brand magazines. Other companies such as Pinterest, Instagram, and Twitter have also bridged the gap successfully and introduced ad programs that were forged by collaborating with brands and agencies. Although the ad offerings come years after the platforms have built up their audiences, the ad experience is organic for Pinterest users, which benefits advertisers in the long run, according to Joanne Bradford, former Head of Partnerships at Pinterest.

“We put the Pinner first,” Bradford says. “Everything we do centers around how the consumer experiences our product, how they use it, and what they can do with it. That’s why our growth is so strong, and marketers are so excited about this offering. We are really trying to be thoughtful, make sure we’re engaging advertisers and consult with them. We help them and only want their money if they’re going to be happy and get a good a return.”

Pinterest helps advertisers learn and understand more about its brand and technology through training programs and workshops, where it presents case studies and tutorials of what Pinterest is and how to use it. Bradford says the company meets with agencies weekly. If an agency or brand commits to Pinterest advertising, they in turn get a dedicated account management team, creative counsel, creative workshops, and regular reviews to optimize their pins.
CONCLUSION

The convergence of advertising and tech has created a unique opportunity, which has yet to be fully realized. Although digital media continues to turn out new platforms, driving more fragmentation with each new ad format—and in the process capturing the imagination and time of consumers—marketers can leverage technology more into advertising than ever before.
9 KEY TAKEAWAYS

How do we bridge the gap between technology and creativity? In collaboration with the dozens of companies that participated in the immersion tours, IAB has identified 9 key takeaways in order of relevance to help both advertisers and technology companies foster greater internal and external collaboration.

1. Understand the new consumer paradigm.
   Interactive media has redefined the marketing conversation and allowed consumers to own their own message. Consumers also choose where and how to spend their media time, which ads they want to interact with, and what products they want. “We put our customers in the center and created a new paradigm in the industry,” says Salesforce Chief Strategy Officer Mike Lazerow. “Recognize who your customer is in every channel.”

2. Focus on your business mission.
   Despite the flux of new technologies and opportunities, businesses can’t be all things simultaneously. Assess what your business is, and if it’s not working, pivot to a new opportunity. Jeff Bezos, Chief Executive Officer and founder of Amazon, put it this way in a recent interview: “We’ve had three big ideas at Amazon that we’ve stuck with for 18 years, and they’re the reason we’re successful: Put the customer first. Invent. And be patient.”

3. Rethink staffing.
   Tech companies need more creative personnel and Madison Avenue needs more tech expertise. Throughout both industries, organizational structures should reflect cross-functional teams that include technologists, creatives, and strategists.

   “For businesses that rely on advertising, it’s ironic that they have precious few employees who have experience in the world of advertising and marketing,” says Sophie Kelly, Chief Executive Officer, The Barbarian Group. “Instead, these Silicon Valley companies have over-focused on hiring employees from media sales backgrounds, who also have difficulty connecting with high-level advertisers as they have never created or run an advertising campaign themselves.”

   Silicon Valley agency AKQA sees a similar staffing shortcoming by traditional agencies. “Ad agencies need to hire more software engineers and developers,” says Tom Bedecarré, Co-Founder and Chairman, AKQA. “The agency world ought to be trying to hire as many Google and Facebook types as tech firms are hiring advertising types, so we understand each other culturally.”
Reconsider financial operations models.
The underlying business model for ad agencies and many marketers doesn’t budget for innovation. The model is based on creativity, a soft cost, while innovation is based on a tangible creation or prototype. “Innovation budgets are swept away, and we’re asked to work with marketing budgets with a proven ROI,” says Bryan Wiener, Chairman of digital agency 360i. “Most marketers and businesses budget by taking a look at what was spent last year and adjust it. Zero-based marketing lets people say, ‘here are my objectives’ and ‘let’s start from scratch.’ And if you did that, your budget would very rarely look the same.”

Bring innovation in-house.
A new financial model for marketers and agencies would allow for more in-house innovation, a resource that agencies say is increasingly vital to offset revenues lost revenues to automated buying and selling. According to the 2014 SoDA report which includes data from 736 C-level, VP, and Director-level managers with $5 million to $100 million annual marketing budgets, 52 percent of respondents, up from 46 percent in the 2013 report, report that an innovation lab has led directly to new business wins. Meanwhile, 86 percent of agencies acknowledged that product creation is increasingly important for digital shops.

Forge partnerships across marketing and technology firms.
Partners can provide answers, generate opportunities, mitigate risk, and expedite the transformation of ideas into tangible products or platforms. “At GE, we have great ideas, but we don’t have all of them,” says Beth Comstock, President and Chief Executive Officer, GE Business Innovations, and Chief Marketing Officer, GE. “We’re forming more partnerships to round out capabilities and turning to the community for answers in new areas. By partnering with companies, we can move faster, take more risks, and see things we don’t usually see.”

“When we get to work with brand and agency measurement teams, and when we can bring in third-party measurement organizations like Nielsen or Datalogix, that’s when we do our best work together,” says David Lawenda, Head of U.S. Global Marketing Solutions, Facebook.

Understand and adapt to millennials.
Millennials, who are more active on social media than their generational predecessors, value offline experiences in a shared world. According to the TalkTrack study published in September 2014 from Keller Fay Group, while millennials account for 689 million word-of-mouth impressions about brands per day, 84 percent of these impressions are as a result of offline conversations, primarily face-to-face. “Millennials have a different set of expectations and values,” says Tom Bedecarré, Co-Founder and Chairman, AKQA. “They are more interested in experiences than stuff. If you’re selling to them, give them an experience that aligns with it.”
Build experiences.

When tech firms and advertisers collaborate, they can build more thoughtful, engaging, and flexible user experiences—and ad formats. GE, for example, worked with Betaworks to create a free, custom digital game to celebrate Gravity Day. In one week, the game got 172 million engagements with consumers says James Cooper, Head of Creative, Betaworks, who spoke about the collaboration at the IAB Silicon Alley event in Brooklyn. After the Gravity Day window passed, the product was repackaged and launched as an app that now has more than 40 million downloads at a price of $1.99.

Be willing to fail.

Technology firms take risks to find the reward. Without failure, there is no learning. “Failing is an option; it should not be feared,” says Salesforce’s Chief Strategy Officer Mike Lazerow. Bryan Wiener, Chairman of digital agency 360i, echoes the same sentiment: “Madison Avenue is often very political, and in political culture, you don’t want to admit failure. In a tech environment, you’re rewarded for failing fast because you’re not draining resources over a long period of time.”
APPENDIX

Acknowledgements

IAB is grateful to everyone who came together for the IAB Silicon Valley and Silicon Alley Tech Tours to encourage and influence leading agency creatives, media professionals, and brand marketers to engage with publishers, technologists, and venture capital firms with the aim of bridging the gap between technology and advertising. A special thanks to Kleiner Perkins Caulfield & Byers (especially Mary Meeker and Michael Abbott) and to Lerer Hippeau Ventures for hosting events in Silicon Valley and Silicon Alley, respectively, and to Tom Bedecarré for his invaluable guidance in shaping the immersion tours. IAB would also like to acknowledge Ron Conway of SV Angel and Michael Lebowitz of Big Spaceship for their generous leadership in encouraging collaboration between agency creatives, media professionals, brand marketers, publishers, technology companies, and venture capital firms.

IAB Agency Advisory Board Silicon Valley Tour Participants 2014

360i
AKQA
AstraZeneca
BBH New York
Big Spaceship
Bravo
cocollective
Comcast Ventures
Cooke & Co.
DigitasLBi
Edelman
Expion
Facebook
Flipboard
Fullscreen
GMD Studios
Houzz
inMobi
Instagram
Intel
Kleiner Perkins Caulfield & Byers
McKinney
Moleskin
Oxygen Media
Pinterest
Pixlee
PlayStation Digital Platforms
R/GA
Rosetta
Salesforce
Shazam
SS+K
SV Angel
The Barbarian Group
Travelocity
Twitter
Unbound
Victors & Spoils
Vine
IAB Agency Advisory Board Silicon Alley Tour Participants 2014

360i
Anheuser-Busch InBev
Betaworks
Big Spaceship
BuzzFeed
Chartbeat
Citigroup
collective
Digg
Droga5
Edelman
Estée Lauder
Giphy

IBM
iHeartMedia
JWT
Leo Burnett
Lerer Hippeau Ventures
MakerBot
McCann NY
McKinney
Mercedes-Benz
Moat
NowThisNews
Percolate
Poncho
R/GA
Razorfish
RebelMouse
Rosetta
SS+K
Tapestry
The Barbarian Group
Thrillist
Urban Future Lab
VHX
Victors & Spoils
Wunderman
ZergNet

A special thanks to the Downtown Brooklyn Partnership, New York City, and New York State for their generosity in bringing together partners for this event.

IAB Agency Advisory Board Silicon Valley Tour Participants 2012

360i
AKQA
BBH New York
Big Spaceship
Droga5

Goodby, Silverstein & Partners
Ladies & Gentlemen
McCann NY
Mediabrands
MPG
R/GA
Socialistic

IAB Leaders

Randall Rothenberg, President and Chief Executive Officer
David Doty, Executive Vice President and Chief Marketing Officer
Julie Thompson, Industry Outreach Liaison